1997 Ontario Budget

Budget Speech

Investing in the Future

The Honourable Ernie Eves, Q.C.
Minister of Finance

Ontario

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Investing in the Future

Presented to the

Members of the Legislative Assembly of Ontario by

The Honourable Ernie Eves, Q. C.

Minister of Finance

May 6, 1997

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Introduction

Investing in the Future

The Province of Ontario is on the way to a better tomorrow. The endless cycle of tax, spend and borrow is over. From the first day our Government took office, our plan has been clear: lift the burden of debt from our children's shoulders while reinvesting in priority programs like health care and education.

Under the leadership of Premier Mike Harris, our plan allows Ontarians to keep more of their hard-earned money; it invests in health care, classroom education and safe communities; it reduces the size of government and ensures that taxpayers' dollars are spent more wisely.

Between 1985 and 1995, the period Premier Mike Harris refers to as "The Lost Decade", previous governments hiked taxes 65 times, including 11 increases to personal income tax. These tax hikes did not balance the budget or create jobs. In fact, debt tripled over this period, choking Ontario's growth potential and eroding the economic health of this Province.

Thirty Tax Cuts in Less Than Two Years

Our Government is turning the economy around. We recognize that all Ontarians deserve opportunity and a job, with the personal dignity and security that a job brings. To that end, we are continuing with our tax cuts to create jobs. Today I will announce a further 20 reductions, for a total of 30 tax cuts in less than two years.

We have cut government spending in a deliberate and careful way, because government was too big, too wasteful and was doing too many things that could be done better by the private sector.

We are reducing the size of governments in this province, peeling away the layers of red tape and bureaucracy. We are redefining the role of governments in Ontario to make them more accountable to taxpayers.

I am pleased to report today that our plan is working. Ontario's economy is responding with jobs and growth and, perhaps most

importantly, with renewed confidence and optimism. This document builds on the Budget I presented last year. It is based on sound economic and fiscal policies.

Renewed Confidence and Optimism

We are investing in the economy and helping Ontarians get jobs. This Budget helps small businesses get access to capital to invest in the economy and do what they do best - create jobs.

We are investing in research and development to create jobs for the future. The actions I announce today will reaffirm Ontario as one of the leading jurisdictions for new research and development in the world.

We are investing in health care because Ontarians deserve care that is second to none. Our Government is not only keeping our commitment to guarantee health care funding, we are increasing our investment.

We are investing in our classrooms, and in fairer support for child care for all working families, giving Ontario's future leaders the best start possible.

A Better Future for our Children

We are investing in a better future for our children, for my daughter Natalie and her generation. In the words of Premier Leslie Frost, "We are laying the sure foundations for a greater and stronger Ontario".

This Budget will help secure those foundations for all Ontarians -- now and for future generations. In preparing it, I received assistance and advice from literally hundreds of Ontarians. I have considered their advice carefully and I thank them for their important contribution.

I want to thank all my colleagues, especially Premier Mike Harris, for his guidance and leadership.

I want to express my appreciation to the dedicated staff of the Ministry of Finance led by Deputy Minister Michael Gourley, to my loyal personal staff led by Louise Girouard, and to my wife Vicki and daughter Natalie for their support and understanding.

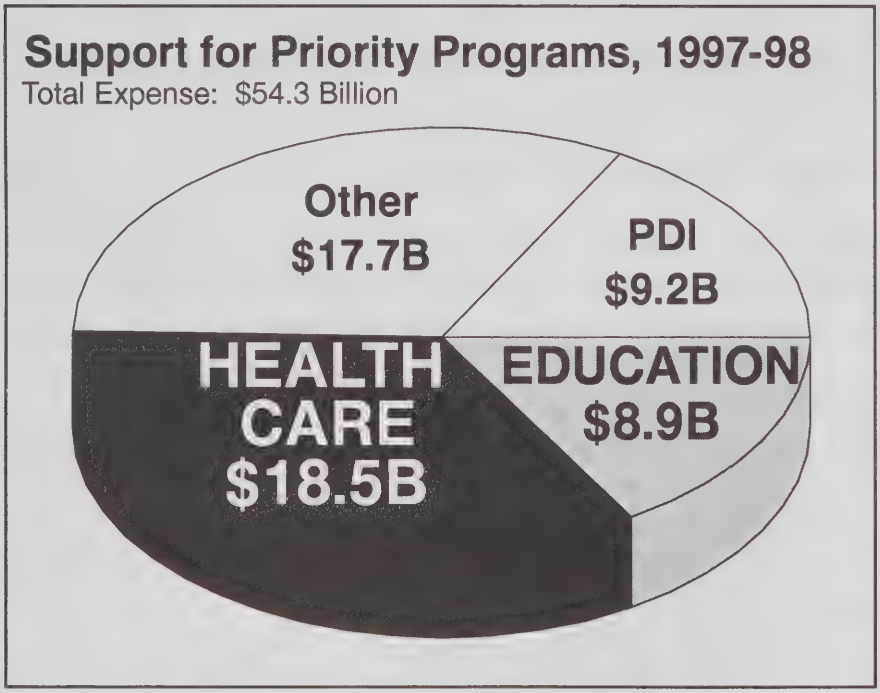
Balancing the Budget and Controlling the Debt

On Track for a Balanced Budget

Improving on our Deficit Target

Everyone knows that when we took office in June 1995, government was spending $1 million more every hour than it was taking in.

Thanks to our cautious and prudent approach, the deficit for the fiscal year 1996-97 will be $7.5 billion, an improvement of $710 million over the 1996 Budget Plan.

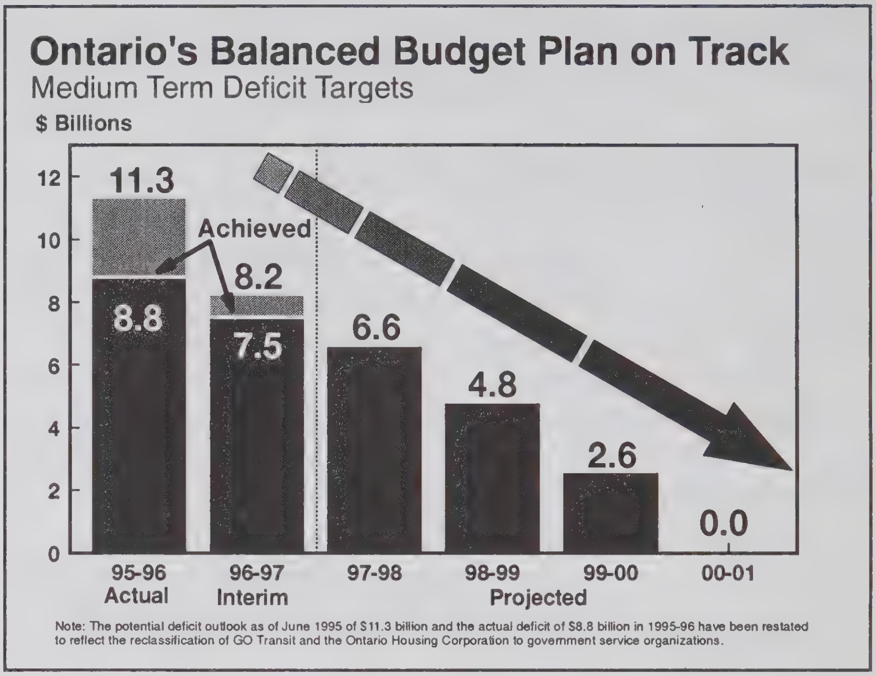


Turning the Corner Toward a Balanced Budget

For fiscal year 1997-98 our Budget Plan projects a deficit of $6.6 billion. The deficit will be reduced further to $4.8 billion next year or some 58 per cent less than the deficit we faced on taking office.

Our Balanced Budget Plan will ensure that the deficit is eliminated by the year 2000-01.

We have turned the corner toward a balanced budget.



Controlling Ontario's Debt

We Remain on Track for our Balanced Budget Target

While we remain on track for our balanced budget target, we are not about to sit by and watch our children's future swept away by a sea of debt.

It would be wrong to shackle our children with this financial burden. The debt threatens our economy and our public services. It means that the Province must continue to pay more than $9 billion in interest each and every year. This is more than we spend on education and is now almost half the size of the budget for health care, our highest priority.

Once the budget is balanced, we will put in place a program to cut that debt to ensure that our children will have the opportunities they deserve.

Ontario's Economy - Strong, and Getting Stronger

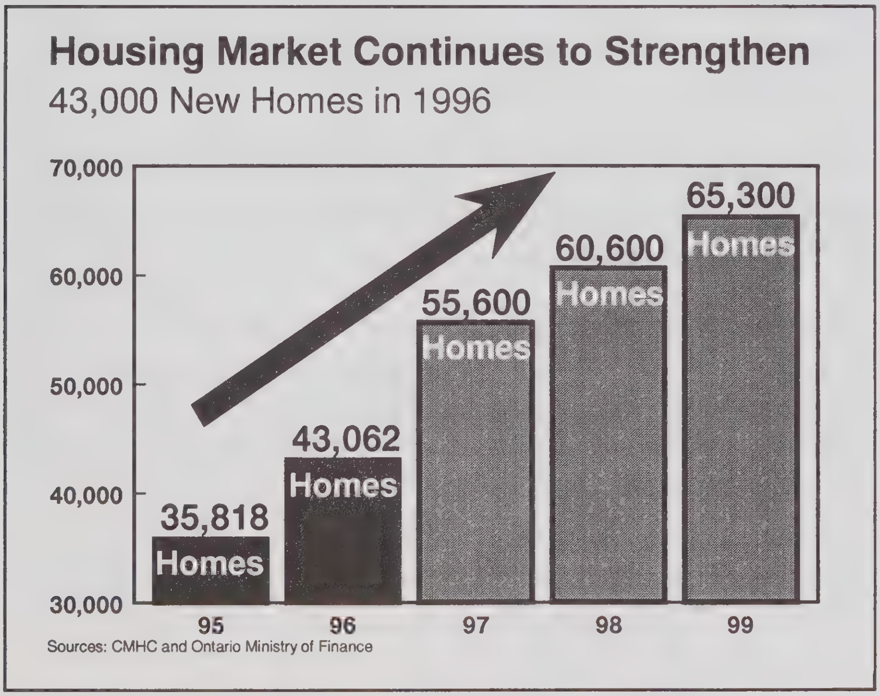
Ontario's economy is responding to the Government's plan to make Ontario, once again, a province of jobs and opportunity.

Fiscal Responsibility Leads to More Jobs

Our deficit reduction plan, along with those of other governments, has been a major factor in lowering interest rates. This record of fiscal responsibility by all governments in Canada is leading to improved business and consumer confidence, and to more jobs.

The housing market continues to strengthen and the number of housing starts is projected to rise by 29.1 per cent in 1997.

In last year's Budget I introduced a rebate of the Land Transfer Tax for first-time buyers of new homes. This measure contributed to a 20.2 per cent increase in the number of housing starts in 1996. More than 12,000 refunds were paid to first-time home buyers in the past 12 months.



On March 31st, I announced that this successful rebate has been extended for another year.

Jobs are Being Created

The Ontario economy has responded in a renewed spirit of confidence and optimism.

45,600 New Jobs in March Alone

In March alone, the Ontario economy created 45,600 new jobs. Reflected in this increase is the largest monthly private sector job gain on record.

A wide range of indicators point to strong job growth in the coming months. The Ontario Help Wanted Index, which measures job ads placed by employers seeking workers, is up 17.8 per cent over the past twelve months. The last time the Help Wanted Index grew that fast, job growth accelerated to nearly 200,000 jobs per year.

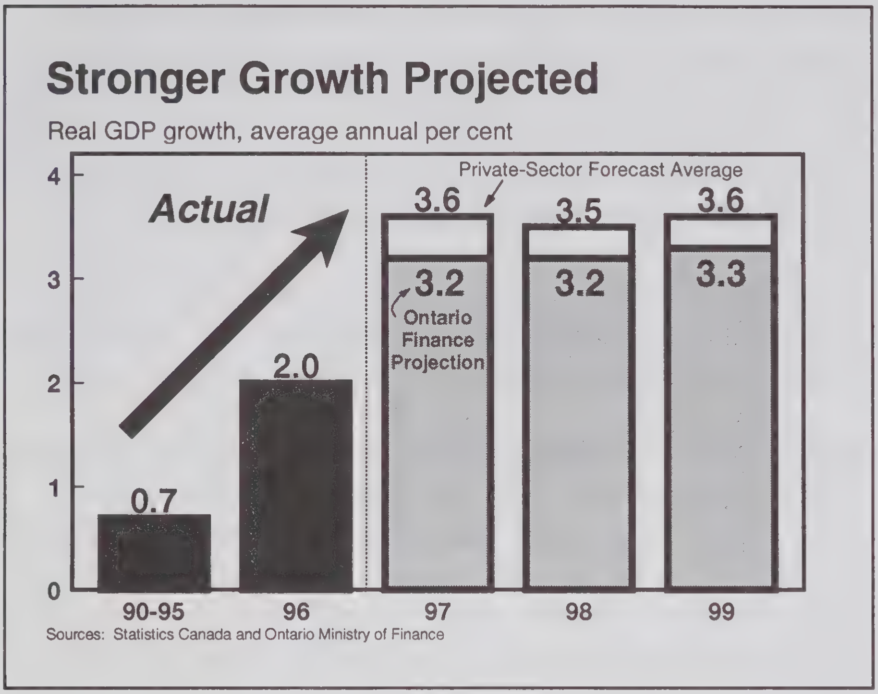
Private sector economists have identified the rising trends in consumer spending, housing activity, new orders and overtime activity as strong leading indicators of accelerating job growth.

The Royal Bank, for example, is predicting an increase of 700,000 net new jobs in Canada over the next two years. According to the Bank, Ontario is expected to account for well in excess of its normal share of that job growth.

Ontario's Economy Will Do Better

While this pace of job creation is an improvement, it's not acceptable to this Government. Ontario's economy can and will do better.

We need to continue to cut taxes. We need less government. We need to continue to reduce the regulation and red tape that discourage businesses and we need to continue to create an environment that encourages communities and small businesses to grow and create jobs.



INVESTING FOR JOBS AND GROWTH

Helping Communities to Grow and Small Business to Create Jobs

Small businesses create jobs - more than any other sector.

As noted by the Committee on Small Business Access to Capital, small businesses need greater access to financing to help them grow and create jobs.

I would like to thank my colleagues Jim Brown, Tom Froese and John O'Toole, who served as members of the Committee, as well as the co-chairs, Rob Sampson and Joe Spina, for their ideas.

Creating Community Small Business Investment Funds

Following consultations on their recommendations, I am announcing today that the Government will help with the creation of Community Small Business Investment Funds.

I will introduce legislation to make these funds eligible as investments for Labour Sponsored Investment Funds (LSIF) and the small business investment tax credit for banks.

To further encourage investment in these Community Small Business Investments Funds, every dollar invested by an LSIF in these funds will count as two dollars up front in meeting the LSIF's small business investment requirement. We will also be increasing that requirement from 10 per cent to 15 per cent for 1997 and 1998, and to 20 per cent for 1999.

We have asked the federal government to recognize LSIF investments in these new Community Small Business Investment Funds as eligible investments for federal purposes.

Helping Communities through Enterprise Centres

Enterprise Centres for Small Business

To help both new and growing small businesses throughout the province, we will help establish a network of Enterprise Centres for Small Business. The Centres will provide coaching and mentoring in business planning, marketing, accounting and overall business strategy.

The current Self Help Office Program of the Ministry of Economic Development, Trade and Tourism will be consolidated with Enterprise Centres.

I want to thank the new Parliamentary Assistant for the Ministry of Northern Development and Mines, Joe Spina, for his enthusiastic work in developing the Enterprise Centre concept.

Banks Must Assist Small Business in Providing Jobs and Growth

Banks also have a role to play in small business development.

Helping Small Business Create Jobs

Last year, bank profits reached more than $6 billion, an increase of more than 20 per cent from the record levels of 1995. However, small business people tell us they continue to have problems getting the bank financing they need to grow and create jobs. These financing problems are the greatest for new and emerging small businesses.

The small business investment tax credit for banks, announced in the 1996 Budget as a temporary incentive, allows banks to earn back a surtax introduced last year by investing in small business.

To help increase small business access to financing, I am announcing today a number of measures to enrich this earn-back program. I am also making it permanent. As of tomorrow:

- The amount of tax that can be earned back will be increased from 20 per cent to 75 per cent for equity investments of $50,000 or less.
- Large financial institutions investing in Community Small Business Investment Funds will be able to earn back tax at 40 per cent.
- Other large financial institutions will be allowed to earn back tax by lending to small business.

Encouraging Loans at Rates Below Bank Prime

The Canadian Imperial Bank of Commerce has taken a leadership role in providing loans to small businesses at below-prime interest rates. To recognize that leadership and to encourage other financial institutions to follow, the ability to earn back taxes will be extended to encourage loans of $50,000 or less to small businesses at interest rates below bank prime.

These measures will help to provide lower cost financing and patient capital to more than 25,000 small businesses in Ontario. We will be consulting with small business and financial institutions on the implementation details of these measures before introducing legislation.

We will parallel the federal government's extension of its capital tax surtax on large financial institutions and harmonize the capital tax on banks and other financial institutions with the federal large corporations capital tax. These changes will help reduce compliance costs for business and administration costs for government.

Capital tax rates will be cut and special rules will be introduced to help credit unions and smaller financial institutions.

The new tax base and rates will be effective May 7, 1997 on a prorated basis.

Details of these measures are provided in Budget Paper C.

Investing in Rural Communities

The agricultural sector is an important contributor to jobs, growth and exports in Ontario. Our potential to export and create more jobs is a strength on which we want to build.

The budget of the Ministry of Agriculture, Food and Rural Affairs has been increased to $405 million. We have maintained the Ministry's share of program spending.

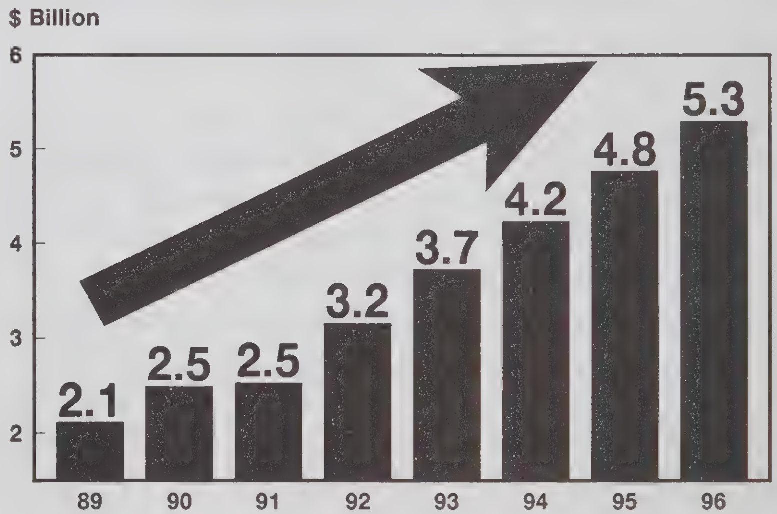
A Three-Year, $30 Million Rural Job Strategy

Today, I am announcing the creation of a three-year, $30 million Rural Job Strategy.

Three million dollars will be used this summer to create 3,000 jobs for youth in rural Ontario.

In addition, this strategy will build on the success of Ontario's agri-food sector, which has raised exports by 160 per cent over the past decade. It will include measures to increase exports by improving quality, marketing and the use of information technology.

Agricultural and Food Exports Growing



Source: Statistics Canada

Together with the enhanced support for small business lending announced today, the Rural Job Strategy will provide the basis for job creation throughout rural Ontario.

Details of these actions will be announced by my colleague, the Honourable Noble Villeneuve, Minister of Agriculture, Food and Rural Affairs.

In the 1996 Budget, we introduced a temporary retail sales tax rebate on building materials for farmers. This rebate has been extended to provide additional assistance to the farming community over the next year.

We are reforming the taxation of farmland and replacing the Farm Tax Rebate with a lower rate of property tax.

Investing in Jobs for Young People

40,000 Jobs for Students

To help young people secure needed income and work experience, we will invest in new summer work opportunities. This Budget provides an additional $6 million to support summer employment. As a result of this added investment, we will support 40,000 students this summer. This is an increase of 6,000 over the previously announced level and 10,000 over the number of student opportunities last year.

We will help graduates struggling to get experience in a tough job market. We will provide a 10 per cent tax credit to both large and small private-sector employers to create 45,000 internship jobs over the next three years for young people in Ontario.

Business Start-Up Loans for Youth

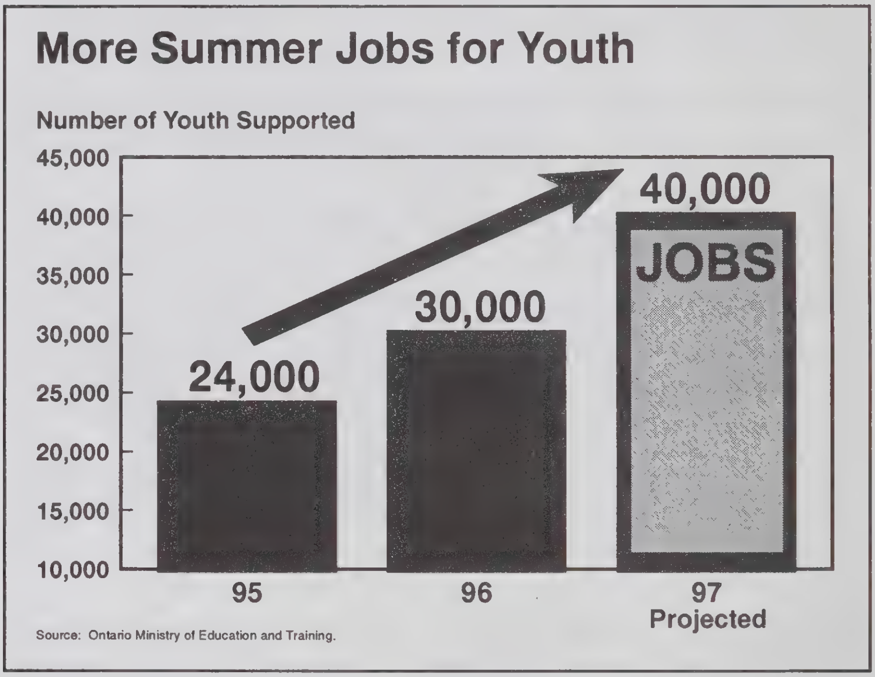
Many of the new jobs being created in Ontario today are in small businesses and through self-employment. Working in co-operation with banks and private-sector business organizations, the government will contribute $2.5 million toward the cost of providing business start-up loans for youth. These loans can be up to $7,500 each and will support the creation of 3,000 jobs.

Our Government will also support jobs for youth in key sectors of the economy by expanding the successful Co-operative Education Tax Credit introduced in last year's Ontario Budget. This measure will provide students enrolled in leading edge

technology educational programs, such as software development, with a 10 per cent tax credit voucher for employers who hire them in jobs related to their program of study.

Tutors in the Classroom

To bring the latest in math, science and technology knowledge right into our classrooms, we will provide a similar grant to school boards that provide practical work placements for post-secondary students in these disciplines. These students will help teachers update teaching materials, introduce children to new technologies, and serve as tutors in the classroom.



Investing in Transportation for Economic Development

The highway system in Northern Ontario and the gateways to the North are important to economic development. They provide critical links for the shipment of goods, for resource based industries, and for tourism activity, so important to the North.

To promote the Northern economy and create jobs, the Government will provide an additional $200 million over the next

five years to accelerate highway construction. This will improve travel and safety on Northern highways through the four-laning of certain key highways as well as the addition of passing lanes and paved shoulders for greater safety.

$200 Million to Improve Northern Highways

Vehicle registration fees will be standardized in Southern Ontario at $74 per year. This will mean a reduction of $16 per year for every driver in the Toronto area.

To make a contribution to the cost of the upgrades of Northern highways while recognizing the higher costs of fuel in the North, Northern vehicle registration fees will be set at $37 per year, one-half the level in the South. Every dollar raised in the North will be invested in improvements to Northern highways.

Investing in the Environment

A modern and efficient water and sewer system is essential for a healthy environment and for economic development.

To that end, the Province will provide $200 million to help municipalities invest in these environmental facilities over the next three years.

Creating Jobs for the Future

Keeping Ontario at the leading edge of science and technology will help the province create long-term jobs. However, Ontario's investment in research and development needs to keep pace with that of our competitors.

Ontario invests about 2 per cent of its economy in research and development, compared to 1.6 per cent for all of Canada. The United States, for example, spends 2.5 per cent and Japan spends 2.8 per cent.

Two of Every Three New Jobs in Technology-Based Industries

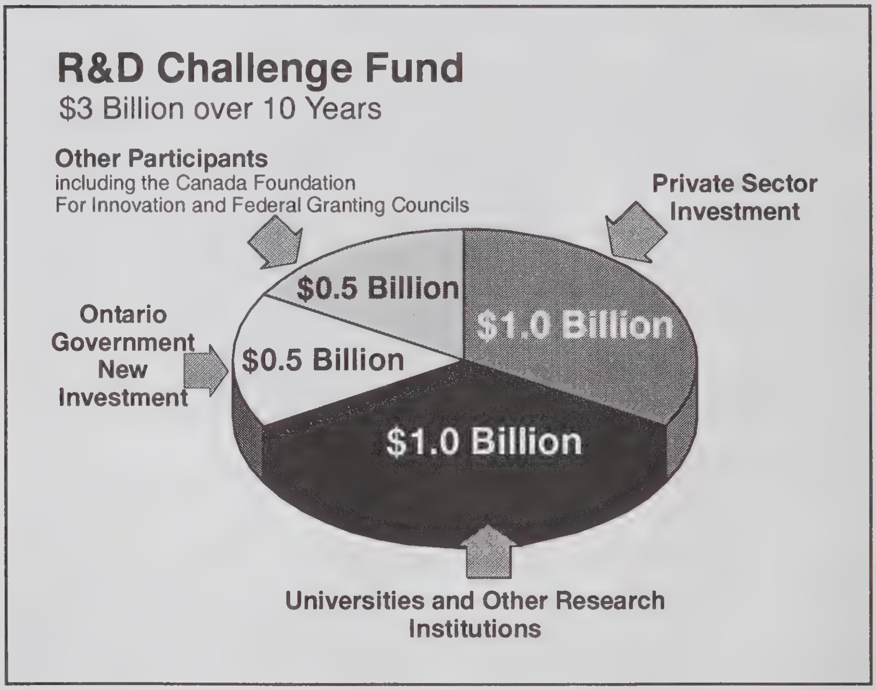
Ontario's economy needs to invest more in R&D. During the last 10 years, two of every three new jobs in Ontario were created in knowledge and technology-based industries.

We need to promote more collaboration and co-operation with the private sector and we need to stimulate greater competition for research excellence among Ontario's universities.

Meeting the R&D Challenge

Ontario's universities are world leaders in many fields of research. To help the private sector take advantage of our world-class research capabilities in universities and other research institutions, I am announcing today the creation of a ten year $3 billion R&D Challenge Fund.

The Province will contribute $500 million in new funding to the R&D Challenge Fund over the next ten years.



Incentives for Excellence

The proposed approach distributes research support, not through a block grant, but rather through a process that provides incentives for excellence while at the same time including a market test of research relevance.

To participate, universities and other research institutions must match the Provincial contribution in the first year of the Fund. The amount required from participants will rise over the life of the Fund.

The R&D Challenge Fund marks a new, competitively-based approach to research funding. All proposals to the R&D Challenge Fund will have to meet a market test linked directly to future economic growth and job creation, in the form of a one-third contribution from the private sector.

Teaching at the post-secondary level will be enhanced as a result of increased R&D activity and greater exposure to world-class research capabilities. The R&D Challenge Fund will also ensure that Ontario universities are able to compete effectively for funding from the Canada Foundation for Innovation.

This new program will result in a total of $3 billion of R&D in our universities and other research institutions over the next ten years.

My colleagues, the Honourable John Snobelen, Minister of Education and Training, together with the Honourable Bill Saunderson, Minister of Economic Development, Trade and Tourism, will consult on the implementation of the program.

To strengthen Ontario's R&D tax competitiveness and to forge stronger linkages between the private sector and non-profit research institutions in Ontario, I am announcing today the Ontario Business-Research Institute Tax Credit. This credit will provide a 20 per cent refundable tax credit for qualifying business-sponsored R&D performed by eligible Ontario universities, research hospitals and other non-profit research centres.

To encourage medical research in Ontario, I am extending the sales tax exemption for research and development equipment to non-profit medical research facilities, such as the Robarts Research Institute in London, Ontario.

Removing Tax Barriers to R&D

Taxes Should Not Discourage R&D and Job Creation

Taxes should not discourage R&D and job creation.

We will also introduce changes to the capital tax and the Retail Sales Tax to remove barriers to research and development in Ontario.

Commercializing New Technology

In addition to R&D, the commercialization of new technology will help foster job creation and new investment. I am taking steps today to encourage the acquisition and commercialization of new technology by allowing firms to deduct immediately the costs of acquiring new technology and by eliminating Ontario's tax on royalty payments for foreign technology, such as computer software.

Details of tax changes to encourage new technology investment and the removal of barriers to R&D are provided in Budget Paper C.

One of the Most Competitive Tax Systems for R&D

With these changes, Ontario will have one of the most competitive tax systems for R&D in the world.

We are responding to the challenges of a global economy. In total, over the next 10 years, the actions I am announcing today will result in more than $6 billion in private sector-related R&D. This is an investment in jobs for our children.

Building on Excellence

Sheridan College is an outstanding example of excellence in the field of computer animation.

Companies such as the Disney Corporation are establishing operations in Ontario to take advantage of the skills and talents of Ontario's computer animation and multimedia design graduates.

Promoting Skill and Talent to Create Jobs

We want to build on the success of institutions like Sheridan College in promoting excellence and creating jobs. The Government is prepared to commit up to $12 million toward the creation of a new, world class, Animation, Communications Design and Technology Centre at Sheridan.

This Centre, which will incorporate digital and multimedia technologies as well as animation, will be established with private-sector partners. These private firms will more than match the government's commitment. We expect that this new Centre will

be self-sustaining and able to repay the Province's investment as it matures. We encourage other institutions to take up this challenge to develop world-class partnerships in their own areas of excellence.

Supporting Artistic Activity and Excellence

In consultation with my colleague, the Honourable Marilyn Mushinski, Minister of Citizenship, Culture and Recreation, I am announcing a number of measures to support artistic activity and excellence in Ontario.

In recognition of the significance of cultural and artistic activities to the people and economy of the Province, I am announcing today that the successful Film and Television Tax Credit will be increased to 20 per cent. In addition, I am introducing a new 15 per cent Computer Animation and Special Effects Tax Credit for productions in Ontario. Computer animation and special effects for Ontario films will qualify for 35 per cent in tax credits all together. First-time film makers will continue to get a 30 per cent film tax credit, and total credits of 45 per cent will be available for computer animation in a first-time film.

Last week I had the opportunity to attend the opening of the studio for the new CBC prime time show Riverdale. I spoke with Canadian actress Lynne Griffin, who has returned to Canada after 15 years of working in the United States.

This Government wants to ensure that talented young people trained in this province have the opportunity to work and create jobs here, and to work on the global stage with such Canadian greats as Norman Jewison. We will consult with educators, industry and artists to explore further ways to accomplish this goal, for our talented young people.

Promoting First-Time Canadian Authors

Canadian authors and Ontario publishers have also established an international reputation for excellence in the arts. To support and build upon these achievements, I am announcing a refundable tax credit to assist Ontario companies that publish and promote first-time Canadian authors. This measure will provide a credit of 30 per cent for pre-production and promotional costs, and 15 per cent for printing costs in Ontario.

Investing in Quality Health Care

We promised a new approach to health care, one that puts the needs of patients first.

Higher Quality, Integrated and Community-Based Health Care

We are making sure that the money we are allocating for health care provides services for patients and not for bureaucratic waste. By managing the system better, we are providing a higher quality, integrated community-based health care system for the future.

The Government is more than meeting its commitment to maintain health care funding at $17.4 billion. For 1997-98, Ministry of Health program funding to improve the quality of care will exceed $17.8 billion. As well, $450 million will be invested in restructuring and $242 million will be provided for capital construction bringing total funding for health care to $18.5 billion.

Support for Health Care – Our Highest Priority

Unlike the federal government, we have made support for health care our highest priority. The federal government has cut funding for people in Ontario from the program that supports health care by $2.1 billion since 1995-96. The federal government provides about $797 for each person in Ontario for the program that supports health care, less than it provides in eight other provinces.

Federal Program Supporting Health Care (Canada Health and Social Transfer) 1997-98

	CHST Per Person
Quebec	$914
Newfoundland	$883
Nova Scotia	$845
Prince Edward Island	$830
New Brunswick	$830
Manitoba	$829
Saskatchewan	$806
British Columbia	$804
Ontario	**$797**
Alberta	$754

The priority our Government places on comprehensive health care means that we have not only maintained health care funding despite the $2.1 billion federal cut, we have increased program funding to a record level of $17.8 billion.

Record Investment in Health Care

The recommendations of the Health Services Restructuring Commission will allow this Province to put in place the most modern and effective integrated health care system in this country. These actions will create a better managed, more efficient and more co-ordinated health care system that better meets the needs of patients.

A Health Care System That Better Meets the Needs of Patients

The investments needed to achieve this goal are substantial. Over the next five years, $2.7 billion will be invested in the restructuring of our community-based health care system.

We are keeping the promise to reinvest.

Managing Change to Ensure Better Services

Our goal in the restructuring of our health care system is to put the needs of patients first by creating the most comprehensive and effective health care services in this country. During pre-budget consultations, we heard that the pace of this restructuring needs to be kept in line with the activities occurring in our communities.

We are listening to the advice of communities and health care professionals. During pre-budget consultations we heard that the Health Services Restructuring Commission has set out achievable restructuring objectives. Decisions have been made and restructuring is well underway, based on these objectives. Planned savings for reinvestment, to be achieved in 1998-99, will be rescheduled so that they more closely coincide with the implementation of this restructuring.

The Minister of Health will be consulting with communities, and those involved in health care delivery, to determine how best to co-ordinate achievement of these savings with the restructuring activities in our communities.

The key to improving the quality of health care is the skill, expertise and caring of the people who work in the health care system.

We will ensure that special skills and knowledge are available throughout Ontario by helping to create networks of information. These networks will make best practices and innovations available quickly and broadly, providing care givers the knowledge needed to help patients across the province.

Making Quality Care Available to More People, in More Places

These networks will allow us to ensure that quality care in areas such as women's health care, orthopaedic care, and AIDS treatment and prevention is available to more people, in more places, than ever before.

Just recently, the Premier announced the establishment of Cancer Care Ontario to link and integrate cancer services throughout the Province. The existing Ontario Cancer Treatment and Research Foundation will become part of Cancer Care Ontario, and linkages will be established with all other service providers in the province.

Investing in Special Health Care Services

Reinvesting in Priority Health Care Services

As promised, we are reinvesting in priority health care services. This year, $138.5 million in additional funds will be provided to ensure access to essential services in health care facilities.

These reinvestments include funding to advance the Minister of Health's Cardiac Strategy to ensure that patients in need of services are treated.

Also included is increased support for the Minister of Health's Dialysis Strategy which provides dialysis treatment for patients in need. Increased funding is being provided for transplants for adults and children. We are also providing more support to enhance community-based services for mental health patients.

We are all inspired by Rick Hansen and his Man in Motion Foundation. Through the Foundation, several groups are working together to fund head and spinal cord injury prevention programs, rehabilitation services and research.

As recently announced, the Government will match every dollar raised in the province, to a maximum of $5 million per year. Over the next five years, this could mean $50 million in new funding for neurotrauma initiatives. I encourage the private sector to join us in supporting this important program.

Details of these investments will be provided by my colleague, the Honourable Jim Wilson, Minister of Health.

Investing in Excellence in the Classroom

Classroom education in this province needs improvement.

From 1985 to 1995, school board spending grew by 82 per cent. Education mill rates rose by 80 per cent and school property tax revenues rose by more than 120 per cent. We know this did not result from increasing enrolment as that grew by only 16 per cent.

School board spending and taxing were out of control - the same reason the province's spending and taxes rose to unacceptable levels.

The solution for the problems in the school system is the same as it is for the Province itself. We have to eliminate unproductive spending. We have to stop the uncontrolled growth in taxes.

That is the problem. We are fixing it.

The direction in which we are going is clear.

Less Government in the School System

- We will have less government in the school system.
- We will reduce the number of school boards by almost half, from 129.
- There will be fewer trustees - less than half of the 1,900 we have now.

We have to build a new and better system. That requires investment. We will make that investment.

Investing in the Classroom

We are investing in the classroom.

We have committed $650 million for primary and secondary school capital over the next two years. These funds will address the current needs of Ontario's school boards to renew existing schools and build new schools.

$231 Million for New School Facilities

As part of this commitment, we have provided $231 million to construct needed new school facilities. Through this investment, school boards will be able to eliminate more than 1,000 portable classrooms and replace them with needed permanent facilities.

We will continue to invest in better education for our children.

Renewing Classroom Teachers

For several years, many graduating teachers have been unable to secure full-time jobs in the teaching profession. Their skills and dedication are essential to the future of our children and we cannot afford to waste those talents.

Renewing the Teaching Profession

I am inviting the teaching profession to join with us in providing an early retirement benefit for teachers to renew the profession. As a result of this initiative, up to 6,500 new teachers would have the opportunity to bring their skills and energy to students in the classrooms of this Province.

This is an opportunity that benefits teachers and students:

- It is an opportunity to honour the efforts of long-time teachers who now want to take on other challenges;
- It is an opportunity for graduating teachers to begin a full-time career in the classroom;
- It is an opportunity for experienced teachers to benefit from the energy and enthusiasm that newly trained colleagues will bring to classrooms; and

- It is an opportunity for children in thousands of classes to benefit from a renewed classroom.

We have made a provision of $250 million in the 1996-97 fiscal year for the Province's share of the cost of this $500 million initiative. The early retirement program would be paid from the Teachers' Pension Plan, which has experienced gains of up to $2 billion that can and should be used for this renewal. We are inviting the teachers to join us on an equal 50/50 basis to provide this benefit and renewal.

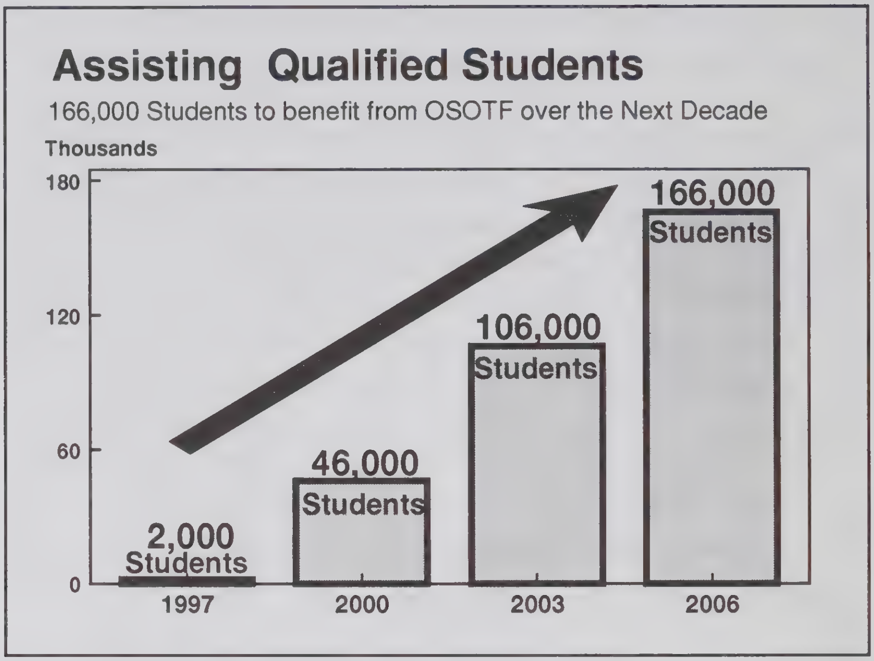
Investing in Ontario's College and University Students

Ontario Student Opportunities Trust Funds Are Helping Qualified Students

The Ontario Student Opportunities Trust Funds (OSOTF) have more than doubled their $100 million target. These funds were established in last year's Budget to allow universities and colleges to assist academically qualified individuals facing financial barriers to post-secondary education.

One-Half Billion Dollars to Assist Students

Reports from universities and colleges show that cash and pledges received by March 31 total over $250 million. The Province will match this amount, creating an endowment of **one-half billion dollars to assist students**.



Helping 166,000 Students

It is estimated that these trust funds will assist 166,000 students over the next decade.

This successful program has permitted Ontario's colleges, many of which have never engaged in fund raising for student aid, to raise approximately $18 million, creating $36 million in trust funds.

Because colleges have a less developed tradition of fund raising, they faced special obstacles in taking advantage of this program. The Government recognizes the challenges faced by the colleges and wants to encourage their development of fund raising as a permanent activity. I am announcing today that colleges of applied arts and technology can continue to receive pledges and donations until March 31, 1998.

Helping Students with Learning Disabilities to Realize their Potential

Too few students with learning disabilities get the help they need to make the transition to college or university.

To help these students realize their potential, we will establish pilot projects at the college and university level, the first of their

kind, to provide real help to learning disabled students in a meaningful way. Dr. Bette Stephenson, pioneering former Minister of Education and mentor, will head a Task Force to design and implement these projects.

Helping Learning Disabled Students to Realize Their Potential

We will provide $30 million over the next five years to carry out this initiative and implement the recommendations of the Task Force.

The courage and determination shown by my late son Justin, and many others like him, provided me with the inspiration to provide this much needed initiative, so that all young students can have an equal opportunity to fulfill their potential.

Income Contingent Loans

This Government is committed to assisting students to achieve their educational goals. Funding for the Ontario Student Assistance Program has been increased by more than 25 per cent, or over $100 million, since 1995-96. This year, spending on student assistance will total $505 million.

We are committed to providing appropriate and adequate support for students who need it. This means that student loan support must better reflect the rewards that students realize from public investment in their education.

We are committed to working with the federal government to implement an income contingent student loan program for September, 1998.

Investing in Children and Families

Supporting the Needs of Children

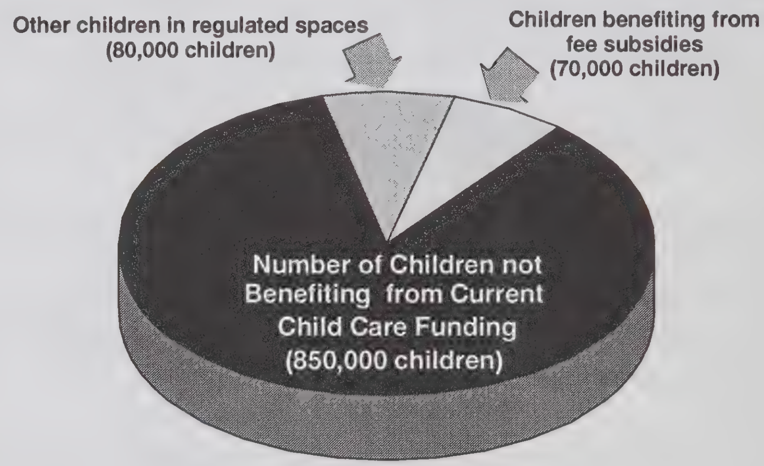
The Premier recently announced $45 million in reinvestments to support children, including speech and language services and early intervention to protect children at risk of abuse and neglect.

A Tax Credit for Child Care

The government also provides $344 million in child care fee subsidies to help more than 70,000 children in this province. However, too many other children and families in similar circumstances receive no help at all from the subsidy system. That's not fair.

Need for Child Care is Great

Current System Is Unfair (Children Under Age 12 In 1997)



I am announcing a new child care tax credit to assist working families who are not benefiting from the current institutional child care system.

Helping 90,000 Families With Child Care Costs

Our credit will provide assistance with child care costs to 90,000 families and 125,000 children. Families with two children will be eligible for this credit up to incomes of $40,000.

For 1997, this credit will provide up to $400 per child under the age of 7 and will decline in value for families with incomes above $20,000 per year.

This credit will provide an immediate $40 million in assistance to lower income working families with child care expenses and will be financed from the $40 million enhancement announced in the 1996 Budget.

Our child care credit will build on our planned improvements to the child care system resulting from the child care review and

consultations with municipalities carried out by the Ministry of Community and Social Services. The new system will provide more choice to parents and help child care providers make care more affordable. More families will receive assistance, with priority being given to families who need help to start or stay at work.

Helping Children in Need

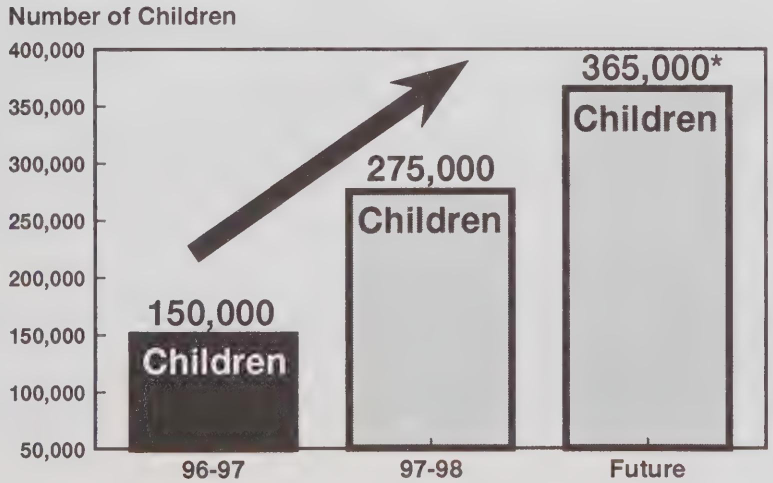
Ontario supports the inter-provincial initiative for a National Child Benefit. Under this initiative, the federal government will contribute to part of the cost of income security for children. The provinces, in turn, have agreed to invest the funds formerly spent on social assistance in programs that help children in low income families.

For our part, we will redirect more than $150 million in provincial funds by expanding programs that help families with children to find and keep jobs. $100 million will be used to enhance our child care tax credit for working families as the National Child Benefit is phased in.

$150 Million to Expand Programs that Help Families

I would like to thank my colleague, the Honourable Janet Ecker, Minister of Community and Social Services, for her leadership on these important measures to help children and families.

Supporting Families Using Child Care



* Exact number depends on future design

Cutting Taxes for Low Income Families with Children

In addition to providing help with child care costs, we will reduce taxes further for low income families, particularly those with children. The Ontario Tax Reduction program will be enriched to reduce taxes for 30,000 families. Twenty thousand more families will pay no Ontario income tax as a result of this change.

This means that, in our first two budgets, we have provided an enhanced tax cut for 255,000 low income individuals and families. Another 30,000 individuals and families pay no Ontario income tax as a result of these changes.

In total, the Ontario Tax Reduction cuts taxes for 530,000 individuals and families and eliminates Ontario income tax entirely for another 655,000 individuals and families. The federal government is collecting income taxes from more than 55 per cent of the low income families paying no Ontario tax.

Protecting Vulnerable Children

The protection of children is a priority for this Government. The government has supported the Child Mortality Task Force and welcomed its preliminary report.

Protecting Vulnerable Children

As an initial step, this Budget provides $15 million to respond to the Task Force and to protect vulnerable children.

We know that more must be done. The government looks forward to the final report of the Task Force and the recommendations from inquests currently underway. We are prepared to take the necessary steps to ensure that children are protected.

We will provide an additional $5 million to accelerate implementation of enhanced enforcement measures to collect monies owed by delinquent parents. My colleague, the Honourable Charles Harnick, Attorney General of Ontario, will provide details.

Supporting Safe Communities

Our plan places a high priority on improving safety in our communities and dealing with violent crime.

Safe Children, Safe Communities

Parents are rightly concerned that their children be protected when participating in community sponsored and supervised activities. Recent highly publicized events, however, have undermined the confidence that parents have in the safety of these activities.

The Ontario Provincial Police currently provides, at no cost, about 100,000 checks of police records for volunteer organizations. It is expected that all local police forces will join in this important community safety initiative in support of volunteers. To complement the community safety initiatives of the police, the Government will assist community groups through the Volunteer Linkages program to better screen and supervise volunteers.

Breaking the Cycle of Violence

My colleague, the Honourable Dianne Cunningham, Minister Responsible for Women's Issues, will be announcing a comprehensive strategy which will strengthen our efforts to prevent violence against women. We will spend an additional $27 million over the next four years to support women and their families in breaking the cycle of violence.

Safe Travel in Our Communities

In order to promote safety in our communities, the Government will work with municipalities to help identify and establish "community safety zones". Fines levied for infractions committed in these zones would be doubled.

The Safety of Children is Paramount

These zones could be portions of roads where the safety of children is paramount, such as school zones and crossings, school bus stops, day care centres, children's parks, or areas of roadways with high accident rates.

Fines for other activities, such as the sale of cigarettes or liquor to minors, that put young people at risk will also be doubled.

These double fines will contribute revenue to the Victims' Justice Fund, which provides funding for programs and services helping victims of crime.

Safer Communities Through Co-ordinated Policing

Safer Communities

The Campbell Report has identified a number of needed improvements in the way in which police services work together to investigate and apprehend serial predators. This Government is acting on those recommendations. We will provide $25 million over the next five years to improve the information sharing capacities of police services and to better co-ordinate the efforts of all the participants in these investigations.

Helping Victims of Violence

Sometimes the victims of violence also include the survivors of those who have lost their lives protecting others. People in Ontario are justifiably outraged that the killer of a police officer can receive an education in prison at the taxpayers' expense while the children and spouse of the slain officer have no support for their education.

This is not right and it is not just.

To correct this injustice, we will provide $5 million this year to create an endowment for the families of police, firefighters and other public safety officers killed in the line of duty. This endowment will fund the cost of tuition and books for post-secondary education. Private donations will enhance this endowment.

In addition, the Victim Support Line pilot, scheduled to end in June of this year, will be extended until March 31, 1998 at a cost of $1.5 million. Ontario is the first jurisdiction in Canada to provide an automated notification service to victims of crime.

I would like to thank my colleague, the Honourable Robert Runciman, Solicitor General and Minister of Correctional Services, for his contribution to community safety.

Promoting Charitable Giving

In last year's Budget, I announced Crown foundation legislation to assist in mobilizing resources for important health, cultural and social organizations.

In the last year, 19 Crown foundations have been created. These consist of one research organization, 8 hospitals and 10 arts and culture organizations, including the Stratford and Shaw Festivals, and the National Ballet of Canada foundations.

I want to take this opportunity to thank Isabel Bassett, my Parliamentary Assistant, for her hard work in making this measure so successful and for her excellent advice on this and other important issues.

In its most recent budget, the federal government actually reduced the amount of a gift to a Crown foundation that can be claimed for an income tax credit from 100 per cent of income in a year to 75 per cent. While that budget followed Ontario's lead by providing incentives for conventional charitable giving, its treatment of Crown foundations is not appropriate.

We have asked the federal government to administer, for Ontario, a tax credit to address this problem. This credit would ensure that those wishing to make gifts above the federal maximum will pay no more Ontario tax than they did before the unfortunate federal changes.

The federal government has said no. Our request means no cost to the federal government, since we would pay for administration, and only Ontario tax would be affected. It also means that the federal government is attempting to prevent Ontario from encouraging giving to charitable foundations by making changes to our own provincial tax system.

The Federal Government Must Take a Co-operative Approach

The Best Job Creation Program is a Tax Cut

The best job creation program is a tax cut.

Federal Action Needed on Taxes and Job Creation

In addition to Ontario, British Columbia, Alberta, Manitoba, New Brunswick, Nova Scotia, and Saskatchewan have each introduced several tax cuts in their budgets.

The federal government said it had no flexibility to cut taxes. Now, a little over two months later, we hear media reports that its 1996-97 deficit is as much as $6 billion lower than was reported at budget time. It is missing an opportunity to cut taxes and create jobs.

High EI Payroll Taxes are Killing Jobs

It will come as no surprise that I believe one of the first federal tax cuts should be to Employment Insurance (EI) premiums. At the current employee premium rate of $2.90, Canadian employees and employers are paying $5 billion more than is being received in benefits.

An excessive EI premium rate is particularly damaging to Ontario. Ontario businesses and employees pay $4 billion more in premiums than Ontarians receive in EI program benefits. This means that contributions from people in Ontario account for 80 per cent of the $5 billion annual surplus. That is unfair.

This tax is killing jobs in this province and in Canada as a whole. While the federal government has committed to a 10 cent cut next year, there is room for a much larger reduction.

Many economic studies, including those by the Canadian Federation of Independent Business, have found that cutting the EI payroll tax would provide a major boost to job creation. In fact, a study by the Bank of Canada found that rising "payroll taxes may

have increased the trend unemployment rate by over one percentage point between 1989 and 1994." These studies tell us that up to 200,000 jobs have been lost nation-wide because of high payroll taxes.

Even federal finance minister Paul Martin has recognized the drag that payroll taxes place on job creation. On August 30, 1994, he said that "high payroll taxes are a cancer on the economy".

We agree. The federal government has the opportunity to create as many as 200,000 jobs across this country by cutting the EI rate to $2.20. It should do so as soon as possible.

I have written to the federal Minister of Finance to express Ontario's view that the EI Account should be removed from Ottawa's books and externally managed, as will be the new CPP investment fund. We want this fund to be responsibly managed in the interests of the people who pay into it and we want the federal government to stop using it as cash flow.

Fair Treatment for People in Ontario

While Ontarians contribute a fair share to the EI program, they do not receive a fair share of EI benefits when they are unemployed. In 1996, the federal government paid an average of $13,100 in EI benefits per unemployed person in New Brunswick and $6,500 in British Columbia, but an average of only $4,800 in Ontario.

For EI-financed training, the federal government has offered to spend, on average, $850 per unemployed worker in Ontario. In Quebec, the federal government will provide $1,060 per unemployed worker as part of a recently signed agreement. Ontarians believe that unemployed workers in Ontario should have the same federal support for training as in Quebec or other provinces.

If the federal government is prepared to treat the unemployed in Ontario fairly, we are prepared to sign a training agreement today.

People in Ontario deserve a fairer deal.

Employment Insurance is not the only area in which people in Ontario are unfairly treated.

As I said earlier, the situation is similar in health care. The federal government provides $797 per person for the program that supports health care in Ontario. In eight other provinces, it provides up to $117 more per person.

Similarly, if the federal government were prepared to provide First Nations people in Ontario with the same level of funding it provides in the rest of Canada, annual funding to First Nations people in Ontario would increase by about $145 million.

Whether it is people in Ontario who need training, who are unemployed and need EI benefits, or who need health care, the federal government provides less support to individuals in Ontario than to people in other parts of the country.

Ontarians Deserve to be Treated Fairly

Ontarians deserve to be treated fairly.

Federal Co-operation in Improving the Tax System

The federal government needs to show flexibility in the way it deals with provinces in shared tax areas, like the personal income tax.

While the provinces and the federal government are supposed to act as partners in the tax collection agreement, the federal government often makes unilateral changes to these shared tax arrangements. These can affect the provinces without their agreement.

Ontario needs to be able to ensure that hidden tax increases are not built into the tax system and that taxes, once down, stay down. Ontario needs the flexibility to ensure that its tax system rewards risk-taking and creates jobs.

Changes are needed to make these agreements work as a real partnership.

There are substantial costs to Ontario taxpayers in having the federal government act as the tax collector. For example, the federal government collects over $1.5 billion in taxes from Ontario taxpayers on behalf of Ontario before sending any tax money to Ontario. That means extra interest costs for Ontario taxpayers. We estimate that these costs are well over $100 million each year. We do not believe that this is a cost our taxpayers should bear.

Further, the federal government can and has refused to make changes that Ontario has requested that affect only Ontario's taxes.

- When we asked that it administer a tax credit to restore the treatment of gifts to Crown Foundations, it said no.

- When we asked that it include an easily accessed check-off box for those wishing to donate their tax refund to lower the debt, it said sorry, no room.

- When we asked for a simple, easily understood design for administering the Fair Share Health Care Levy, as we set out in the Common Sense Revolution, it said not now.

The federal government has not addressed these concerns.

Unless the federal government is prepared to address these inequities, Ontario will have to seriously consider withdrawing from the current arrangement. We have already begun to seek expert advice on this matter to protect Ontario taxpayers' best interests.

Less Government

Who Does What

In January, the Ontario Government proposed a new arrangement for provincial-municipal responsibilities. This plan was designed to bring fairness to the funding of education in Ontario and to improve the quality of education by providing a fair distribution of funding across the province.

In proposing its arrangement, the Government had several objectives in mind:

- to reduce taxes by ending the spiralling costs of education in the Province;
- to reduce taxes by rationalizing the delivery of services between the provincial and municipal governments; and
- to bring tax fairness to the people of this Province regardless of the municipality in which they live.

Bringing Tax Fairness to the People of This Province

This Government clearly stated these objectives and indicated that we were willing to listen to other ways of achieving them. We said, on page 20 of the Common Sense Revolution, that "we are unconditionally committed to reaching our goals, but we are very open to discussing how we get there. If there are better ideas out there about how to cut spending, reduce waste and improve efficiency, we want to hear them".

Following several months of discussions, municipal representatives offered an alternative solution based on a coalition of several groups reflecting a broad cross-section of interests. We have listened.

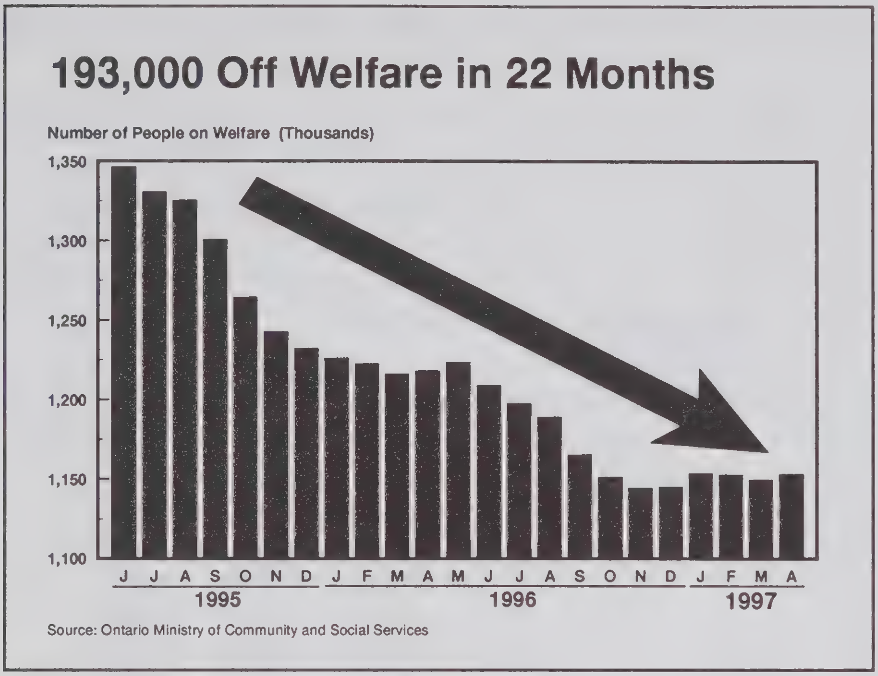
Last Thursday, the Government accepted the municipal alternative and will now proceed with the necessary implementation.

A Hand-Up, Not a Hand-Out

Part of our plan to reduce the role and size of government is getting people off welfare and into work.

This Government has increased the incentive to work, reduced benefits to realistic levels, introduced mandatory workfare and cracked down on welfare fraud.

Since June of 1995, the welfare caseload in Ontario has fallen by 14.4 per cent: 193,000 fewer people rely on social assistance today than when this government took office.



193,000 Fewer People Relying on Social Assistance

Open and Accountable Government

Improving Accountability in the Public Sector

My colleague, Bart Maves, MPP for Niagara Falls, has introduced legislation to improve accountability in the public sector.

With the benefit of his advice and comments, I will introduce the Public Sector Accountability Act.

This Act will require that organizations:

- report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants;
- adopt policies that ensure that the private sector has an open opportunity to compete to provide services to their organizations; and
- adopt and publicly report on organizational performance using private and public sector benchmarks.

Budget Paper B contains further details of this initiative.

Cutting Taxes and Creating Jobs

Making the Tax System Fair

Cutting taxes and ensuring that taxpayers receive efficient and effective public services is an important part of tax fairness. It is also essential that people pay their fair share of taxes so that the burden is not passed to their neighbours.

The underground economy is one way in which some try to avoid paying their fair share. In the last year, we have added 191 audit and collections staff to improve the integrity of our tax system and to make sure that taxes are paid if they are owed. They are expected to recover $80 million a year by 1998-99.

Dealing with the Underground Economy and Improving Tax Fairness

We will continue to deal with the underground economy and improve tax fairness.

Today, I am announcing further actions which are expected to result in improved collections of up to $100 million per year by fiscal year 2000-01.

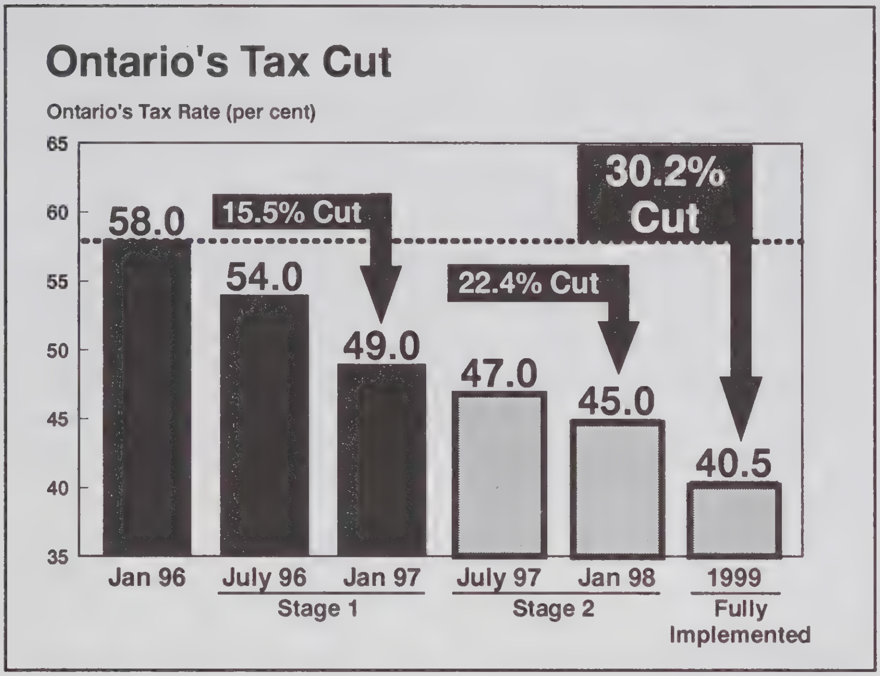
Further amendments will be made to improve tax enforcement and modernize and simplify the tax system and streamline the operations of government.

I have asked my colleague and new Parliamentary Assistant, Bill Grimmett, MPP for Muskoka-Georgian Bay, to look into ways to simplify administrative procedures for small business.

Details of tax measures are provided in Budget Papers B and C.

Our Plan to Cut Taxes and Create Jobs

A tax cut is the best job creation program.



Delivering the Tax Cut

We have promised to cut personal income tax rates by 30 per cent over three years to create jobs. Today we are delivering the next two steps of that tax cut.

Effective July 1, Ontario's personal income tax rate will be reduced to 47 per cent of Basic Federal Tax from the current 49 per cent.

We will cut taxes again on January 1, 1998. The income tax rate will be reduced further, to 45 per cent.

This means that Ontario's rate of income tax will have been reduced by 22.4 per cent since 1995.

In last year's Budget, I announced a three-year plan to cut the Employer Health Tax by completely exempting the first $400,000 of payroll from the EHT. This marks the second year of our plan and when fully implemented on January 1 of 1999, 270,000, or 88 per cent of Ontario employers will no longer have to pay this job-killing payroll tax.

Our Tax Cutting Plan is Working

The benefits of our plan to cut taxes are clear.

- 91 per cent of all taxpayers will see an Ontario tax cut of 30 per cent or greater.
- All taxpayers with incomes of $60,000 or less will see their Ontario taxes fall by 30 per cent or more.
- This means that, with the cuts announced today, an autoworker earning $84,000, will get a tax cut of $1,875. When the tax cut is fully implemented, this same auto worker would save $2,505, a tax reduction of 25.4 per cent.

The best job creation program is a tax cut. This is our plan and it is working.

Conclusion

This Budget continues the implementation of the government's plan.

This Government is committed to doing what it said it would do. Such commitment requires the strong leadership and courage of conviction that Premier Mike Harris exemplifies. His direction and foresight have been instrumental in developing this plan.

On Track for a Balanced Budget

The plan keeps us on track for a balanced budget in 2000-01 and makes government more accountable to taxpayers.

It invests in the economy by helping small and medium size businesses in communities across Ontario get access to the financing they need to grow and create jobs.

This plan makes record investments in research and development to create jobs for the future. It establishes a stronger partnership in Ontario between the private and public sector, creating a

powerful force for innovation and prosperity. It builds, in Ontario, the foundation for the most competitive R&D in the world.

It promotes growth of agricultural exports, job creation and economic development in Ontario's rural communities.

It makes communities safer throughout Ontario by protecting our children and our neighbourhoods.

Families are an important part of our community. This Budget assists hard working families throughout Ontario. It provides help to many more young families with child care expenses.

This plan invests in education. It invests where the money is needed - in the classroom. It provides for renewal of the teaching profession. It helps students realize their full academic potential.

The plan ensures our commitment to provide quality health care for all Ontarians now and for the future.

It allows taxpayers to keep more of their hard-earned money by cutting personal income taxes. In total we have cut taxes 30 times in less than 2 years.

We have an obligation to the future of Ontario. My daughter Natalie and her younger generation will accomplish things that some never imagined possible.

Investing in the Future

Our plan creates jobs for the future.

Our plan lays the foundations for a better tomorrow by investing in the future today.

Investing in the

Future

HEALTH CARE

EDUCATION

SAFE COMMUNITIES

JOBS

ONTARIO

1997 Ontario Budget

Budget Papers

Investing in the Future

The Honourable Ernie Eves, Q.C.
Minister of Finance

Ontario

1997 Ontario Budget

Budget Papers

Investing in the Future

Presented to the
Members of the Legislative Assembly of Ontario by
The Honourable Ernie Eves, Q. C.
Minister of Finance
May 6, 1997

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Le document Budget de l'Ontario 1997 : Documents budgétaires est disponible en français.

Table of Contents

Investing in the future

Under the leadership of Premier Mike Harris, our plan allows Ontarians to keep more of their hard-earned money; it invests in health care, classroom education and safe communities; it reduces the size of government and ensures that taxpayers' dollars are spent more wisely.

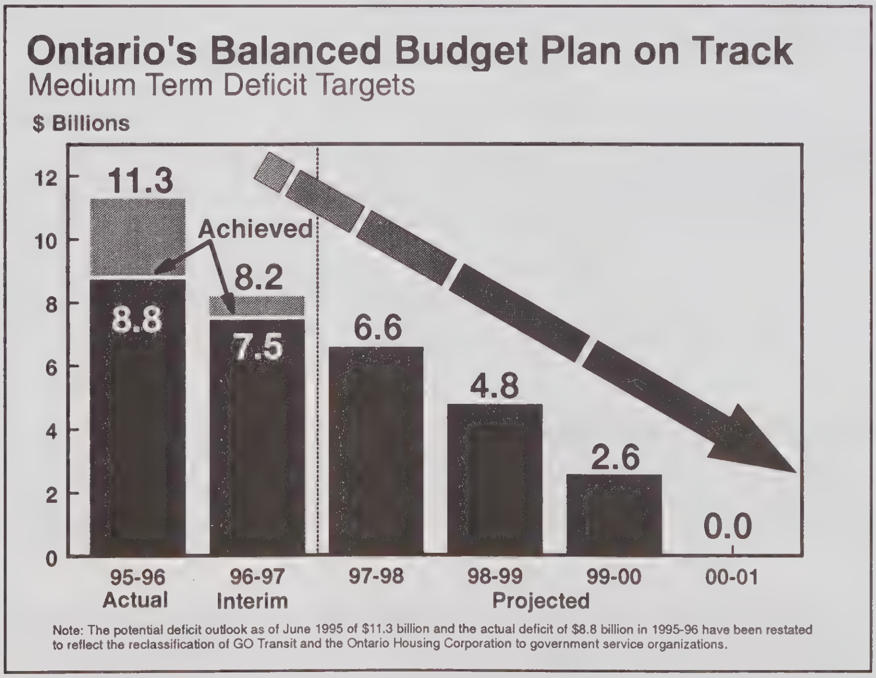
Our Government is turning the economy around. We recognize that all Ontarians deserve opportunity and a job, with the personal dignity and security that a job brings.

Ontario Finance Minister Ernie Eves

Balancing the Budget

The deficit for the fiscal year 1996-97 will be $7.5 billion, an improvement of $710 million over the 1996 Budget plan.

For the fiscal year 1997-98, our Budget plan projects a deficit of $6.6 billion. The deficit will be reduced further to $4.8 billion next year or some 58 per cent less than the deficit we faced on taking office.



Our Balanced Budget Plan will ensure that the deficit is eliminated by the year 2000-01.

Once the budget is balanced, we will put in place a program to cut Ontario's debt to ensure that our children have the opportunities they deserve.

Ontario's Economy – Strong, and Getting Stronger

Ontario's economy is responding to the Government's plan to make Ontario, once again, a province of jobs and opportunity.

The housing market continues to strengthen and the number of housing starts is projected to rise by 29.1 per cent in 1997.

In March alone, the Ontario economy created 45,600 new jobs. Reflected in this increase is the largest monthly private sector job gain on record.

Private sector economists have identified the rising trends in consumer spending, housing activity, new orders and overtime activity as strong leading indicators of accelerating job growth.

The Royal Bank, for example, is predicting an increase of 700,000 net new jobs in Canada over the next two years. According to the Bank, Ontario is expected to account for well in excess of its normal share of that job growth.

While this pace of job creation is an improvement, it's not acceptable to this Government. Ontario's economy can and will do better.

We need to continue to cut taxes. We need less government. We need to continue to reduce the regulation and red tape that discourage businesses and we need to continue to create an environment that encourages communities and small businesses to grow and create jobs.

Ontario Finance Minister Ernie Eves

Investing for jobs and growth

Helping Communities to Grow and Small Business to Create Jobs

Small businesses create jobs - more than any other sector. As noted by the Committee on Small Business Access to Capital, small businesses need better access to financing to help them grow and create jobs.

The Government will help small businesses by creating Community Small Business Investment Funds. The Government will introduce legislation to make these funds eligible as investments for Labour Sponsored Investment Funds and the small business investment tax credit for banks.

Enterprise Centres for Small Businesses will provide new and growing businesses with coaching and mentoring in business planning, marketing, accounting and overall business strategy.

Banks also have a role to play in small business development. The small business investment tax credit for banks, announced in the 1996 Budget as a temporary incentive, allows banks to earn back a surtax by investing in small business. To help increase small business access to financing, we are announcing a number of measures to enrich this earn-back program. The credit will also be made permanent.

The Canadian Imperial Bank of Commerce has taken a leadership role in providing loans to small businesses at below-prime interest rates. To encourage other financial institutions to follow, the ability to earn back taxes will be extended to encourage loans of $50,000 or less to small businesses at interest rates below bank prime.

Investing in Rural Communitites

To create jobs in rural Ontario, we are announcing a three-year, $30-million Rural Job Strategy. As part of this strategy, 3,000 jobs for youth will be created in rural Ontario this summer.

Investing in Jobs for Young People

This Budget provides an additional $6 million to help 40,000 young people get needed work experience and income this summer.

To help graduates struggling to get experience in a tough job market, the Government will provide a 10 per cent tax credit to both large and small private-sector employers to create 45,000 internship jobs over the next three years.

Working in co-operation with banks and private sector business organizations, the Government will contribute $2.5 million toward business start-up loans for unemployed youth. These loans will support the creation of more than 3,000 jobs.

The Government will also support jobs for youth in key sectors of the economy by expanding the successful Co-operative Education Tax Credit announced in last year's Budget.

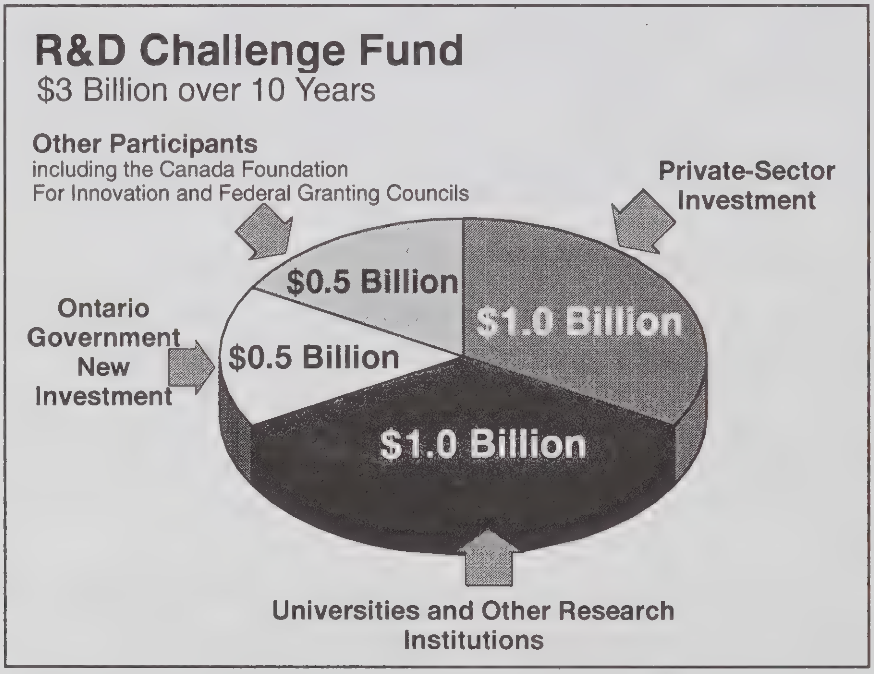
This measure will provide students enrolled in leading edge technology educational programs, such as software development, with a 10 per cent tax credit voucher for employers who hire them in jobs related to their program of study.

Creating jobs for the future

Keeping Ontario at the leading edge of science and technology will help the province create long-term jobs. We need to promote more collaboration and cooperation with the private sector and we need to stimulate greater competition for research excellence among Ontario's universities.

Ontario Finance Minister Ernie Eves

To help the private sector take advantage of our world-class research capabilities in universities and other research institutions, the Government in announcing the creation of a 10-year, $3-billion R&D Challenge Fund.



The province will contribute $500 million in new funding to the R&D Challenge fund over the next 10 years.

The R&D Challenge Fund marks a new, competitively-based approach to research. All proposals to the R&D Challenge Fund will have to meet a market test linked directly to future economic growth and job creation, in the form of a one-third contribution from the private sector.

The Government will support its commitment to R&D through the Ontario Business-Research Institute Tax Credit for qualifying business-sponsored R&D performed by eligible universities, research hospitals, and other non-profit research centres. The Government will also extend the sales tax exemption for research and development equipment purchase to non-profit medical facilities, and will remove tax barriers to R&D.

Investing in Quality Health Care

We are making sure that the money we are allocating for health care provides services for patients and not for bureaucratic waste. By managing the system better, we are providing a higher quality, integrated community-based health care system for the future.

Ontario Finance Minister Ernie Eves

Record Investment in Health Care

The Government is more than meeting its commitment to maintain health care funding at $17.4 billion. For 1997-98, Ministry of Health program funding to improve the quality of care will exceed $17.8 billion. As well, $450 million will be invested in restructuring and $242 million provided for capital construction bring the total funding for health care to $18.5 million.

The recommendations of the Health Services Restructuring Commission will allow this province to put in place the most modern and effective health care system in this country.

The investments needed to achieve this goal are substantial. Over the next five years, $2.7 billion will be invested in restructuring our community-based health care system. We are keeping the promise to reinvest.

Managing Change to Ensure Better Services

We will ensure that special skills and knowledge are available throughout Ontario by helping to create networks of information. These networks will make best practices and innovations available quickly and broadly, providing the knowledge needed by care-givers to help people across the province.

For example, Cancer Care Ontario will link and integrate cancer services throughout the province.

Investing in Excellence in the Classroom

From 1985 to 1995, school board spending grew by 82 per cent. School property tax revenues rose by more than 120 per cent. We know that this did not result from increasing enrolment, as that grew by only 16 per cent.

The solution for the problems in the school system is the same as it is for the province itself. We have to eliminate unproductive spending. We have to stop the uncontrolled growth in taxes. That is the problem. We are fixing it.

Ontario Finance Minister Ernie Eves

We have committed $650 million over the next two years to renew and build schools. School boards will be able to replace more than 1,000 portable classrooms with permanent facilities.

We are inviting the teaching profession to join us in providing early retirement benefit for teachers to renew the profession. As a result of this incentive, up to 6,500 new teachers would have the opportunity to bring their skills and energy to the classroom of this Province.

Investing in college and university students

The Ontario Student Opportunities Trust Funds, established in last year's Budget, help good students who face financial barriers to get a college or university degree. Cash and pledges total over $250 million. The Province will match this amount, creating an endowment of **half a billion dollars to assist students.**

Because they face special fundraising challenges, the Government is announcing that colleges of applied arts and technology can continue to receive pledges and donations until March 31, 1998.

Pilot project, the first of its kind, will help learning disabled students get the kind of meaningful help they need to make the transition to college or university. Dr. Bette Stephenson will head a task force to design and implement these project. We will provide $30 million over the next five years to carry out this initiative and implement the recommendations of the task force.

Student loan support must better reflect the rewards that students realize from public investment in their education. We are committed to working with the federal government to implement an income-contingent student loan program for September 1998.

Investing in Children and Families

Ninety thousand families and 125,000 children will benefit from a new child care tax credit to assist working families who are not benefiting from current institutional child care system.

This new system will provide more choice to parents and help child care providers make care more affordable. More families will receive assistance, with priority being given to families who need help to start or stay at work.

Ontario supports the inter-provincial initiative for a National Child Benefit. We will redirect $150 million in provincial funds by expanding programs that help families with children to find and keep jobs.

We will enrich the Ontario Tax Reduction program to reduce taxes for 30,000 low-income individuals and families. Twenty thousand more individuals and families will pay no Ontario income tax as a result of this change.

In total, the Ontario Tax Reduction cuts taxes for 530,000 individuals and families eliminates Ontario income tax entirely for another 655,000 individuals and families.

Supporting Safe Communities

Our plan places a high priority on improving safety in our communities and dealing with violent crime.

To complement the community safety initiatives of the police, the government will assist community groups through the Volunteer Linkages program to better screen and supervise volunteers.

The Minister Responsible for Women's Issues will be announcing a comprehensive strategy which will strengthen our efforts to prevent violence against women. We will spend an additional $27 million over the next four years to support women and their families in breaking the cycle of violence.

To promote safety in our communities, The Government will work with municipalities to help them establish “community safety zones” -- for example, school zones and crossings, school bus stops, or areas of roadways with high accident rates. Fines levied for infractions in these zones would be doubled.

We will provide $25 million over the next five years to improve the way police forces work together to investigate and apprehend serial predators.

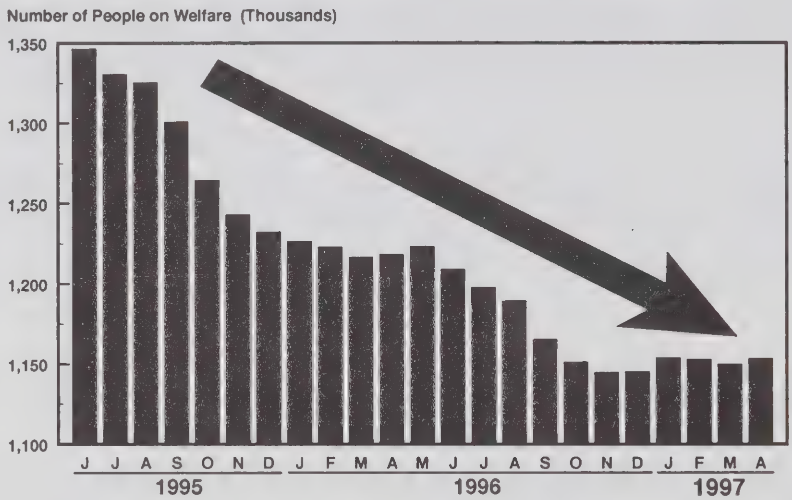
Less Government

Part of our plan to reduce the role and size of government is getting people off welfare and into work.

The Government has increased the incentive to work, reduced benefits to realistic levels, introduced mandatory workfare and craked down on welfare fraud.

193,000 fewer people rely on social assistance today than when this Government took office.

193,000 Off Welfare in 22 Months



Source: Ontario Ministry of Community and Social Services

To improve accountability in the public sector, the Government will introduce the Public Sector Accountability Act. This Act will require that public sector organizations:

- report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants;
- adopt policies that ensure that the private sector has an open opportunity to compete to provide services to their organizations; and
- adopt and publicly report on organizational performance using private and public sector benchmarks.

Cutting Taxes and Creating Jobs

We have promised to cut personal income tax rates by 30 per cent over three years to create jobs. The 1997 Budget delivers on the next two steps of that tax cut.

Effective July 1, Ontario's personal income tax rate will be reduced to 47 per cent of basic federal tax. On January 1, 1998, the income tax rate will be reduced further to 45 per cent.

This means that by next January, we will have cut Ontario's rate of income tax by 22.4 per cent since 1995.

The benefits of our plan to cut taxes are clear.

- 91 per cent of all taxpayers will see an Ontario tax cut of 30 per cent or more.
- All taxpayers with incomes of $60,000 or less will see their Ontario taxes fall by 30 per cent or more.

Conclusion

This Budget continues the implementation of the government's plan.

The plan keeps us on track for a balanced budget in 2000-01 and makes government more accountable to taxpayers.

It invests in the economy by helping small and medium size firms in communities across Ontario get access to the financing they need to grow and create jobs.

This plan makes record investments in research and development to create jobs for the future.

It makes communities safer throughout Ontario by protecting our children and our neighbourhoods.

This Budget assists hard working families throughout Ontario. It provides help to many more young families with child care expenses.

The plan invests in education. It invests where the money is needed -- in the classroom.

The plan ensures our commitment to provide quality health care for all Ontarians now and for the future.

It allows taxpayers to keep more of their hard-earned money by cutting personal income taxes. In total we have cut taxes 30 times in less than two years.

Our plan creates jobs for the future.

Our plan lays the foundations for a better tomorrow by investing in the future today.

Ontario Finance Minister Ernie Eves

Paper A

Ontario's Economic Outlook

Ontario at a Glance

Per cent	1996	1997	1998	1999
Real GDP growth	2.0	3.2	3.2	3.3
Employment (thousands)	5,311	Up to 5,437	Up to 5,634	Up to 5,801
Unemployment rate	9.1	8.4-8.7	7.9-8.6	7.7-8.2
CPI inflation	1.6	1.9	1.9	1.9

Sources: Statistics Canada and Ontario Ministry of Finance

Private-sector forecasters expect the Ontario economy to accelerate and to grow more rapidly than the Canadian economy.

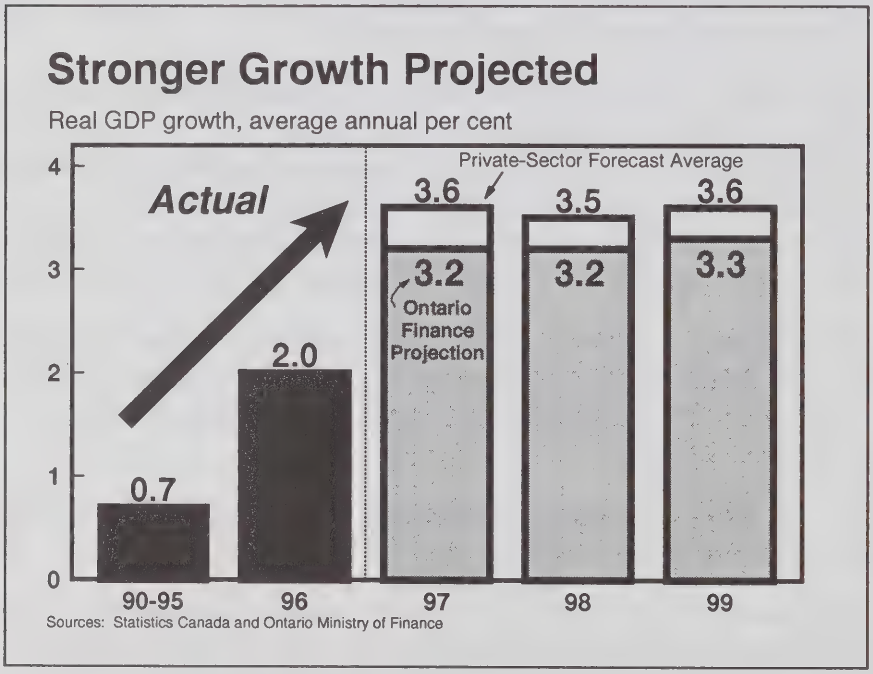
- In a recent report, Dun & Bradstreet Canada concluded: "It is not surprising that Ontario continues to lead the nation in optimism and we fully expect this trend to continue in the long term."
- In its latest quarterly report on the outlook for Canadian provinces, Data Resources International (DRI) forecasts that Ontario will lead all regions of North America in economic growth between 1996 and 2001, spurred by private-sector growth.
- A headline in the Conference Board of Canada's latest provincial outlook announces "Ontario to Lead Growth in 1997." According to the Conference Board, "all the fundamental ingredients for a strong pick-up in consumer spending are now combined: better employment growth, improving consumer confidence, personal income tax cuts, modest wage increases and low interest rates."
- This optimism is echoed by the forecasters of ScotiaBank who observe that "Ontario's economy is shifting into higher gear as residential construction and business investment add to the impetus from exports."
- The Royal Bank of Canada forecasts that Ontario will add 309,000 jobs from the end of 1996 to the end of 1998.

This paper presents cautious projections for the Ontario economy that are based on prudent assumptions about key features of the external environment, including interest rates, exchange rates and the performance of the U.S. economy. These projections have been adopted to provide a prudent fiscal plan and should not be interpreted as targets for the Ontario economy.

Highlights

Following a half-decade of limited and sporadic growth, domestic spending has entered a period of strong and sustained growth. This growth reflects the impact of personal income tax cuts, lower interest rates and growing consumer and business confidence. Private-sector forecasters expect Ontario to grow more rapidly than the rest of Canada and all of the G-7 countries over the next three years.

- Consumer spending will continue to strengthen as real disposable income increases, reflecting income tax cuts and solid job gains.
- The housing market is buoyant and is projected to lead growth over the next several years.
- Business investment will also be a leading contributor to growth providing concrete evidence of renewed business confidence.
- Ontario's exports will continue to rise faster than the overall economy as exporters take advantage of sustained growth in the U.S., a competitive exchange rate and low production costs.



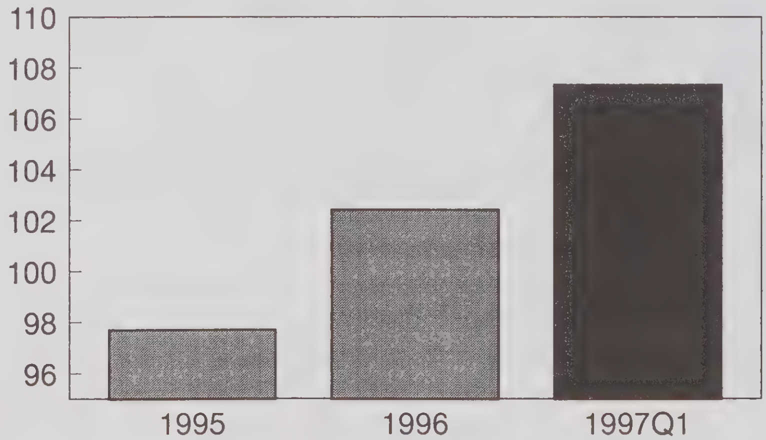
Recent Signs of Economic Strength

The Ontario economy is entering a period of vigour and renewed optimism as continuing strength in exports and business investment are enhanced by healthy gains in consumer spending, soaring housing sales and rising construction activity. The Ontario economy rose at an average annual rate of more than 3 per cent over the third and fourth quarters of 1996.

- In the first quarter of 1997, Ontario housing starts were up 54.1 per cent from the same period a year earlier. For the year 1996, housing starts increased by 20.2 per cent. Toronto-area home resales were up 26.1 per cent in the first four months of 1997, from the same period a year ago.
- Ontario department store sales continued their healthy performance, rising 13.6 per cent from a year earlier in March.
- Businesses plan to raise current-dollar investment in plant and equipment in Ontario by 4.5 per cent in 1997, according to the latest survey from Statistics Canada. This follows a 10.2 per cent rise in 1996, for a total increase of 15.2 per cent over the two-year period.
- Over the first two months of 1997, Ontario international merchandise exports were up 3.5 per cent from a year ago, mainly reflecting higher exports of automotive products and industrial goods.
- Ontario's agricultural and food exports climbed by 11.7 per cent in 1996, to a record total of \$5.3 billion.

Consumer Confidence Rising

Ontario Consumer Confidence Index (1991=100)



Source: Conference Board of Canada

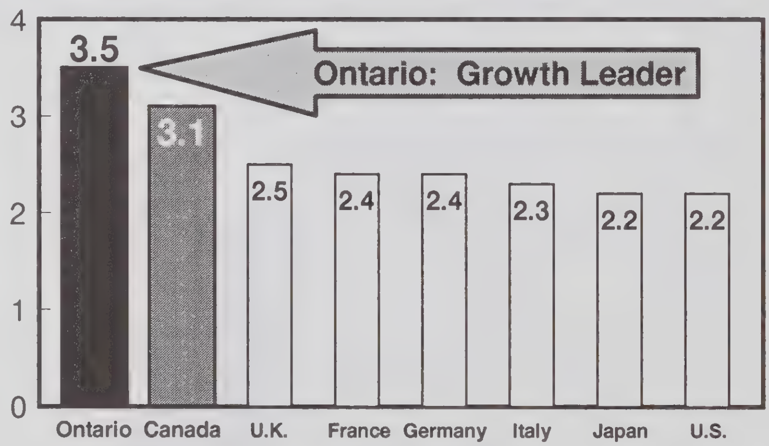
Sustained Growth in Ontario's Key Trading Partners

Sustained but slower economic growth in the U.S. and Ontario's strong competitive position support export growth. Moderate expansion in the rest of the industrialized countries will further enhance Ontario exports of goods and services.

- The U.S. is Ontario's most important export market, accounting for about 90 per cent of our international merchandise exports. Private-sector forecasters, on average, expect rising U.S. interest rates to slow growth from near 3 per cent in 1997 to a more sustainable rate of 2 per cent in 1998. This should keep inflationary pressures in check and provide stability to Ontario's export growth in the medium term.
- Modest economic growth in western Europe is expected to continue over the next few years, as European Union countries continue to prepare their economies for monetary union.
- Although recent weakness in the yen is boosting Japanese exports, continuing restructuring in the financial sector and fiscal tightening are expected to keep overall growth modest in Japan.

Ontario's Growth Leads G-7 Countries

Projected average annual real GDP growth, 1997-2001 (per cent)



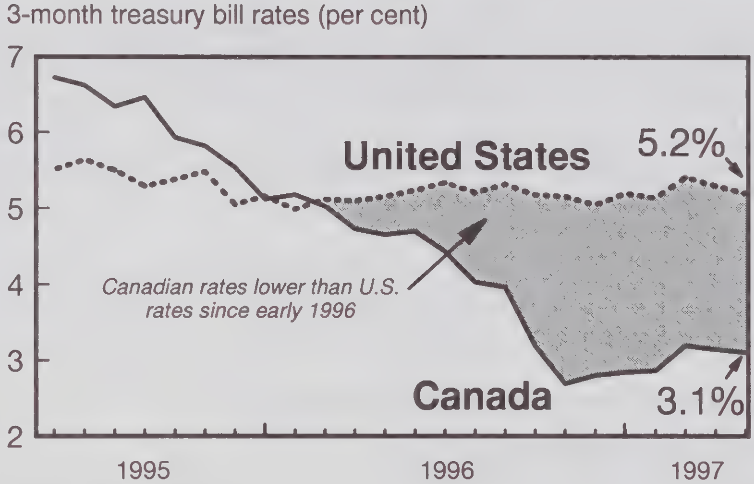
Sources: Consensus Forecasts and Ontario Ministry of Finance Survey of Forecasts (April 1997)

Low Interest Rates Spur Stronger Growth

Low inflation and reduced deficits by Ontario and other governments have set the stage for sustained low interest rates.

- Lower interest rates stimulate the economy with a lag of between 12 and 18 months. The real easing in monetary conditions started in late 1995 and continued through to late 1996. Given the long lags, this will continue to provide a substantial boost to the economy over 1997 and 1998, stimulating output and job creation.

Canadian Interest Rates Lower Than U.S.



Source: Bank of Canada

- Private-sector forecasters expect a modest rise in short-term Canadian interest rates over 1997 due to pressure from higher U.S. rates. According to U.S. forecasters, short-term rates in the U.S. are expected to rise between 50 to 100 basis points, sufficient to slow U.S. economic growth to a sustainable 2 per cent annualized pace.

Cautious Interest Rate Assumptions
(Annual average per cent)

	1996	1997	1998
3-month treasury bills			
Private-sector survey average	4.2	3.3	3.7
Ontario's prudent assumption		4.0	4.7
10-year government bonds			
Private-sector survey average	7.2	6.7	6.3
Ontario's prudent assumption		7.4	7.3

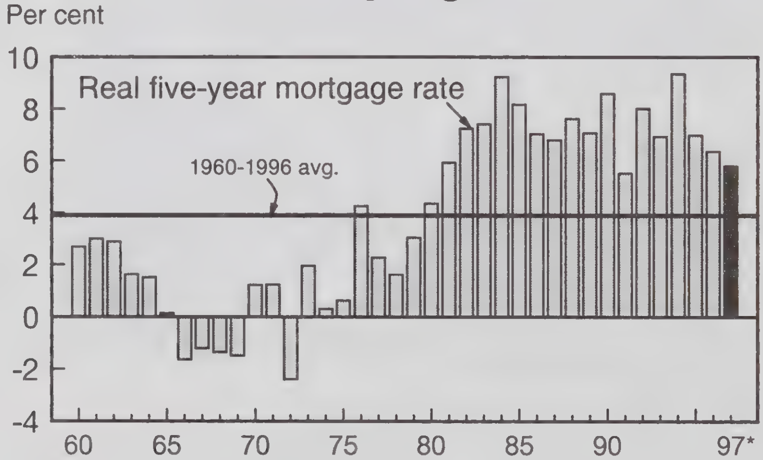
Sources: Bank of Canada, Ontario Ministry of Finance and Ontario Finance Financial Market Survey (April 1997)

Real Interest Rates Remain Too High

While Canadian interest rates, particularly short-term rates, have come down substantially, inflation has also fallen sharply. Real interest rates, adjusted for inflation, remain high by historic standards.

- Three-month treasury bill rates have fallen from a peak of 13.7 per cent in 1990 to 3.1 per cent in early May of this year. They have been below corresponding rates in the U.S. since March 1996 and currently are about two percentage points lower. However, in real terms, the difference is much smaller. Real three-month treasury bills in Canada, measured as the nominal rate less the CPI inflation rate, are currently close to 1.2 per cent, about one percentage point lower than in the U.S.
- Real 10-year government of Canada bonds are currently about 4.7 per cent, high by historical standards. Over the 1960 to 1996 period, real ten-year government of Canada bonds averaged only 3.6 per cent.
- Real five-year mortgage rates are currently almost two percentage points higher than the long-term average.
- With inflation expected to remain low and significant unused capacity, an early rise in interest rates could well dampen growth prospects.

Real Long-Term Interest Rates Remain Historically High



*May 1997
Sources: Statistics Canada, Bank of Canada and Ontario Ministry of Finance

Job Creation Accelerating

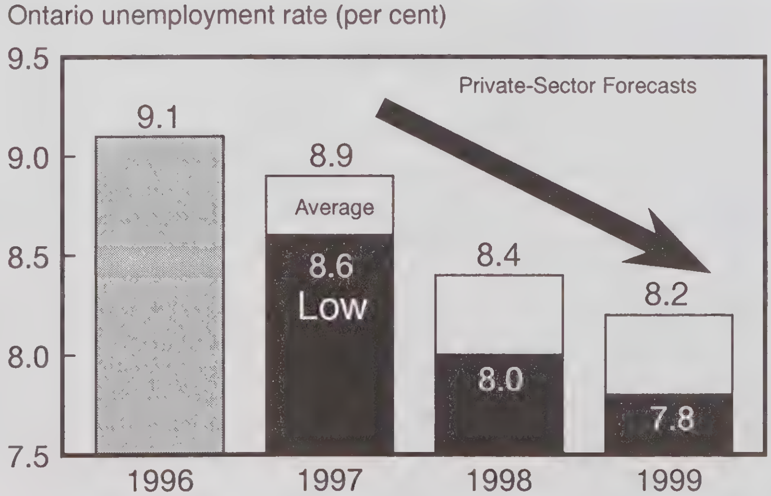
Lower taxes, the strong competitive position of Ontario producers and a renewed spirit of enterprise are leading to accelerating private-sector employment growth.

- Increasing confidence and after-tax income have produced accelerating housing and consumer activity in Ontario. This is leading to increased employment in construction.
- Business and personal services will continue to lead job creation.
- Financial services will rebound with the robust housing market and rising demand for diverse financial assets.
- Manufacturing will remain strong with recent auto plant expansions and continuing strength in U.S. demand.

Private-sector economists expect the unemployment rate to decline despite the increase in labour force growth as individuals return to the workforce, encouraged by improving job prospects.

- The average private-sector forecast for 1999 is an 8.2 per cent unemployment rate. Some forecasters are more optimistic. For example, both University of Toronto and DRI project 7.8 per cent unemployment in 1999.

Private Sector Predicts Lower Unemployment Rate

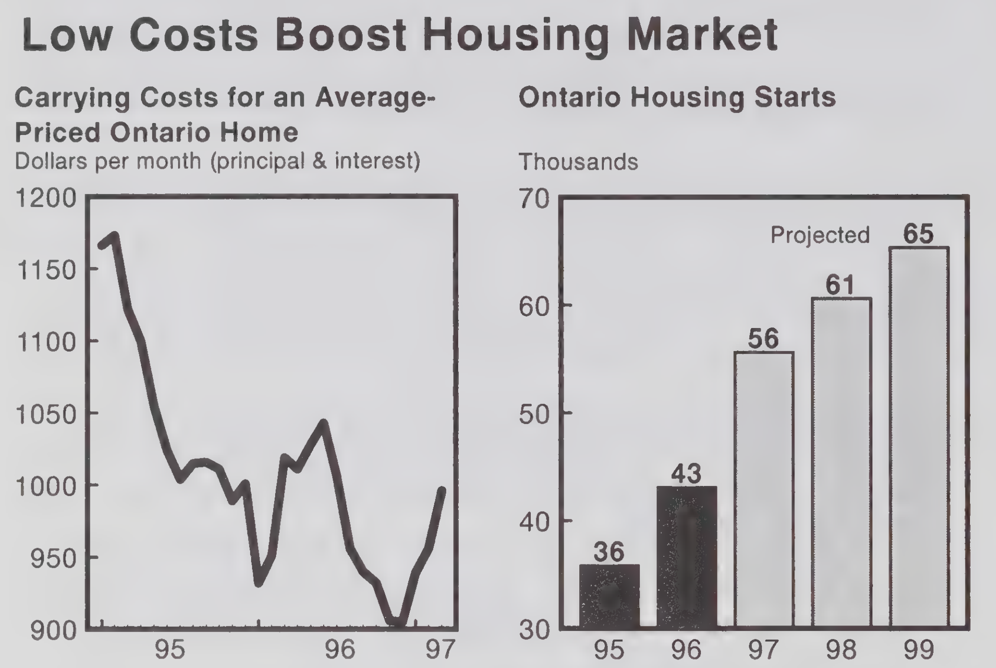


Sources: Statistics Canada and Ontario Ministry of Finance

Housing Leads Domestic Spending

The housing market is leading the expansion of the domestic economy, with strong growth in sales of new and existing homes and housing starts.

Ontario home resales are up 17.3 per cent so far in 1997 compared to the same period in 1996. Toronto-area new home sales are up 69.6 per cent. Ontario housing starts are up 54.1 per cent so far this year.



Sources: CMHC and Ontario Ministry of Finance

- So far in the 1990s, housing markets have been much weaker than underlying demographic growth would suggest. This pent-up requirement for housing provides the basis for a sustained recovery of the residential construction sector.
- The Land Transfer Tax (LTT) rebate for first-time buyers of new homes and tax cuts will support demand and create jobs. Over 12,000 refunds were paid to first-time buyers over the past 12 months. The LTT rebate was extended for another year on March 31st. Each new home built in Ontario generates 2.8 person-years of employment.
- Ontario housing starts are expected to rise to 55,600 in 1997, 60,600 in 1998 and 65,300 in 1999. Residential investment in Ontario is projected to increase by 16.0 per cent in 1997 and by an average of 9.3 per cent in 1998 and 1999.

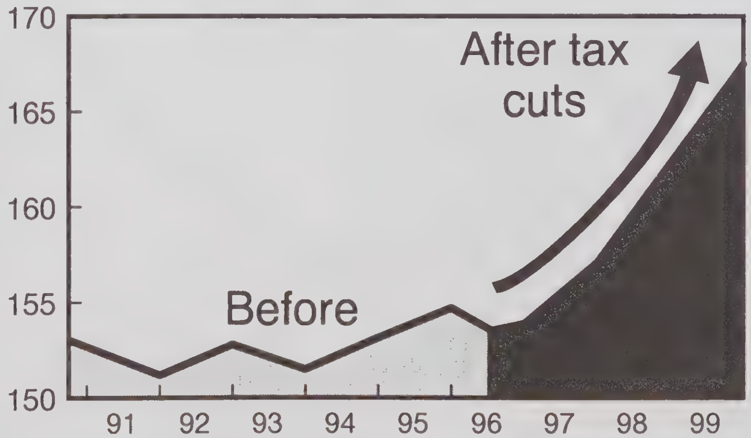
Tax Cuts and Rising Income Boost Consumer Spending

Consumer spending is expected to strengthen over the 1997-1999 period, stimulated by lower taxes, stronger job creation, rising wages and low interest rates.

- Real consumer spending growth is projected to strengthen from 1.5 per cent in 1996, to 2.7 per cent in 1997 and an average 3.2 per cent in 1998 and 1999. Consumer spending in the first half of the 1990s rose by an anemic 0.8 per cent per year. The rebound in consumer spending is supported by personal income tax cuts which boost take-home pay, as well as increased confidence in job prospects and sustained low interest rates.
- Ontario's tax cuts and strong job gains are forecast to boost real personal disposable income growth to an average 3.1 per cent in 1998 and 1999, up from 2.2 per cent in 1997. This is a marked improvement from the 1990 to 1995 period when real disposable income rose at an average annual rate of only 0.1 per cent.
- Stronger disposable income growth and low interest rates will ease the debt burden of households. Mortgage and consumer debt servicing costs currently eat up 9.1 per cent of personal disposable income. This ratio will fall as debt is refinanced and new borrowing occurs at reduced interest rates.

Tax Cuts Boost Real Take-Home Pay

Real personal disposable income ($1986 Billions)



Sources: Statistics Canada and Ontario Ministry of Finance

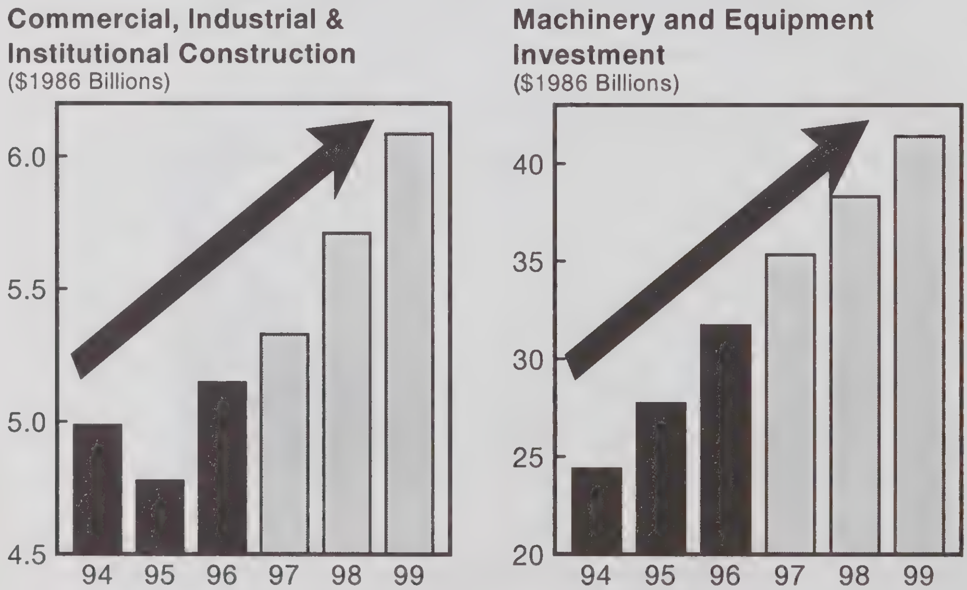
Buoyant Investment Supports Sustained Growth

Investment in Ontario has increased sharply as firms upgraded equipment and added capacity to meet the challenges of globalization and freer trade.

Capital investment not only increases the physical capacity to produce goods and services but also enhances Ontario's competitive position. By employing the latest technologies and processes, investment in new machinery and equipment enables business to lower costs, improve quality and increase market share. Investment is the catalyst to increased productivity generating higher profits and higher labour income.

- Ontario real business investment in machinery and equipment rose an average 15.0 per cent per year over the 1994 to 1996 period. It is projected to increase by 11.4 per cent in 1997 and expand by an average of 8.3 per cent in the 1998 and 1999 period.
- Following six consecutive years of decline, real investment in commercial, industrial and institutional construction rose 7.7 per cent in 1996 and is expected to rise by an additional 18.2 per cent over the next three years.
- Major investment projects, for example, are being carried out by Chrysler, Toyota and Honda.

Ontario Real Business Investment Growing



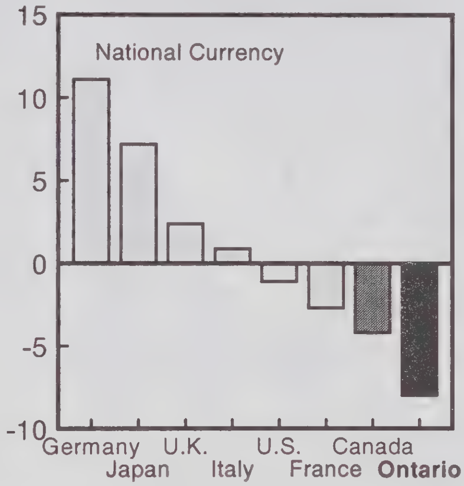
Sources: Statistics Canada and Ontario Ministry of Finance

Competitive Position Supports Job Creation and Growth

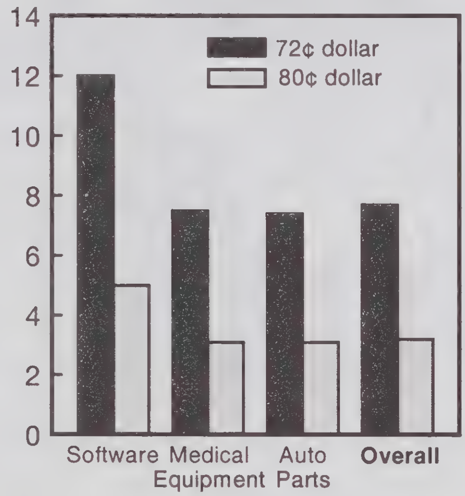
Canadian industries have become highly competitive. In the early 1990s, Canadian producers were burdened with high operating costs, high commercial and industrial rents and exorbitant taxes. Today there is ample and affordable commercial and industrial space, labour costs are more competitive and taxes are lower.

Ontario Highly Competitive

Manufacturing Unit Labour Costs
Per cent change 1991-1995



Canada Cost Advantage by Industry
Per cent advantage over the U.S.



Sources: U.S. Bureau of Labor Statistics, KPMG Canada and Ontario Ministry of Finance

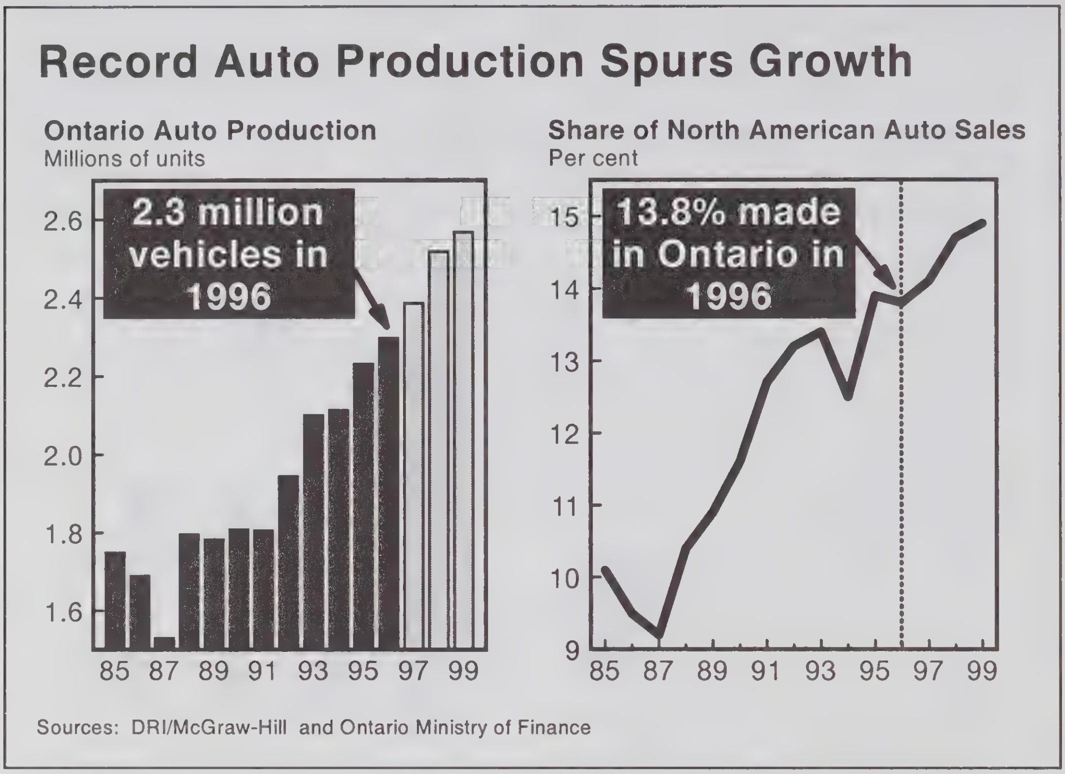
- Ontario's manufacturing unit labour costs declined 8.0 per cent between 1991 and 1995 (the latest year for which data are available), better than any of the G-7 countries. Unit labour costs measured in U.S. dollars declined by 23.2 per cent.

- Industrial land costs, construction costs, wages and benefit costs, notably for health care, and payroll taxes are lower in Canada than in the U.S. A recent study conducted by KPMG Canada shows that Canada has a cost advantage over the U.S., our major trading partner, at exchange rates of up to 87 cents U.S. With a 72 cent dollar, Canada has an overall 7.7 per cent cost advantage and even with an 80 cent dollar, Canada would have a 3.2 per cent cost advantage.

- Low inflation, falling government deficits and an improving current account balance will support a rising dollar over the medium term, despite some near-term volatility as financial markets adjust to higher U.S. interest rates.

Increasingly Export-Oriented Economy

Ontario's economy is increasingly export-oriented. International exports were equivalent to 45.8 per cent of GDP in 1996, up from 28.5 per cent of GDP in 1989. Ontario's export-to-GDP ratio is higher than any G-7 country.



The auto sector plays a fundamental role in Ontario's growth and export performance. Autos contributed 5.2 per cent to overall output in 1996, and accounted for about 45 per cent of total exports.

- North American auto sales are expected to grow modestly over the next two years. Ontario auto production, however, is expected to rise faster than total sales and capture a growing share of North American markets. Added capacity will ensure continued momentum in Ontario auto exports.
- The capacity of Honda's plant in Alliston and Toyota's plant in Cambridge is expected to rise by about 230,000 units by 1998.

Although Ontario high-tech industries currently make up 7.4 per cent of provincial output, they accounted for about 44 per cent of Ontario's real GDP growth from 1990 to 1996. These industries compete successfully in a global market.

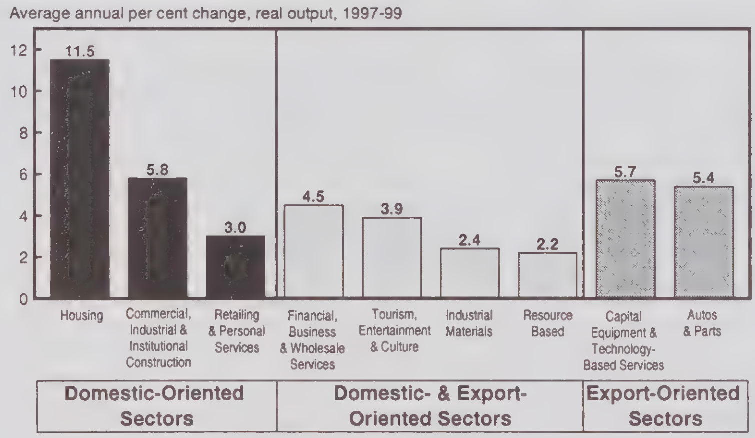
Overall, Ontario real exports are projected to grow at an average 5.1 per cent over the 1997 to 1999 period. Ontario's real trade balance is expected to rise, contributing to GDP growth over the medium term.

More Balanced Sectoral Growth

Ontario's strengths as an exporter of goods and services, combined with renewed consumer confidence, will support growth in many industries. Lower interest and mortgage rates, tax cuts, government deregulation, and improving employment opportunities will all help broaden Ontario's economic expansion by bolstering consumer and business demand.

♦ Domestic-oriented sectors such as housing, retailing, entertainment and culture are an increasing source of jobs and growth, spurred on by tax cuts and rising consumer confidence.

Stronger Growth Projected from Domestic-Oriented Sectors



Source: Ontario Ministry of Finance

♦ Export-oriented sectors such as capital equipment, software and autos will continue to gain market share in the United States. These sectors will benefit from steady growth in U.S. business and consumer demand, and a competitive Canadian dollar.

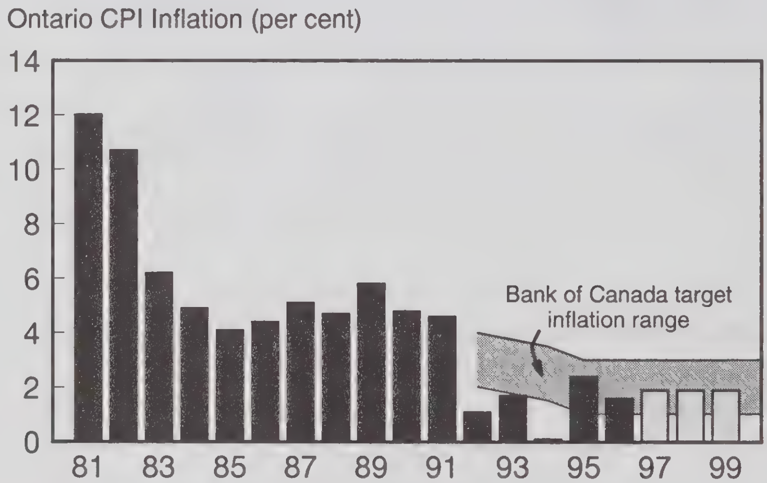
♦ Sectors relying on both export and domestic markets, such as financial and business services, are benefiting from improvements in business and consumer confidence within the province, nationally and in the U.S.

Low Inflation Continues

Inflation should remain low over the next several years. This reflects improving productivity, modest wage settlements and unused production capacity in the economy. A stronger Canadian dollar over the medium term will also help keep inflation low.

- Ontario CPI inflation was 1.6 per cent in 1996, and is projected to average 1.9 per cent over the 1997 to 1999 period. Inflation is expected to stay well within the Bank of Canada's current target range of 1 to 3 per cent.
- Labour costs are important to continuing low inflation since they account for about 55 per cent of the economy's domestic cost base. Wage settlements have averaged about 1 per cent per year over the past four years. Higher productivity due to continuing strong investment will allow firms to raise wage rates without leading to higher consumer prices.
- With the exception of Japan, Ontario is expected to have lower inflation than all of the G-7 nations through the end of the decade.

Ontario Inflation to Remain Low



Sources: Statistics Canada and Ontario Ministry of Finance

Sensitivity of Deficit to Changes in Economic Assumptions

In order to develop a cautious fiscal plan, this Budget is based on prudent assumptions about interest rates and economic growth. Interest rates are assumed to be one percentage point higher than the private-sector consensus forecast, and our economic assumptions are deliberately set below the private-sector consensus and Ontario's potential.

Cautious Economic Growth Projections
(per cent)

	1997	1998	1999
Ontario Real GDP Growth			
Private-sector high	4.3	4.4	4.2
Private-sector low	3.0	2.3	3.1
Private-sector survey average	3.6	3.5	3.6
Ontario's prudent projection	**3.2**	**3.2**	**3.3**

Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (April 1997)
Note: The private-sector average is based on nine respondents for 1997., eight for 1998 and four for 1999.

The following table shows the sensitivity of the deficit to the direct impact of lower interest rates on public debt interest (PDI) and the impact of stronger economic growth on revenues and expenditures. These are partial calculations. For example, the impacts do not incorporate the economic impact of lower interest rates on economic activity.

Impact of Assumptions on the Ontario Deficit
(Change from base level)

	Impact on Deficit ($millions)	
	1997-98	**1998-99**
100 Basis Point Fall in Canadian Interest Rates	-105	-265
1 Percentage Point Increase in Real GDP Growth	-440	-925

Source: Ontario Ministry of Finance
Note: Second-year figures are cumulative change from base level.

The Ontario Economy, Summary: 1994-1999
(per cent change)

	Actual			Projected		
	1994	1995	1996	**1997**	1998	1999
Real Gross Domestic Product	4.7	3.2	2.0	**3.2**	3.2	3.3
Personal consumption	2.7	1.6	1.5	**2.7**	3.2	3.2
Residential construction	1.8	-13.3	13.2	**16.0**	9.9	8.6
Commercial, industrial and institutional construction	-20.9	-4.2	7.7	**3.5**	7.2	6.6
Machinery and equipment	17.0	13.7	14.4	**11.4**	8.4	8.1
Exports	14.4	9.9	3.5	**5.1**	5.3	5.1
Imports	13.9	8.8	2.6	**4.8**	5.0	5.0
Nominal Gross Domestic Product	4.3	4.1	3.3	**5.0**	5.0	5.3
Other Economic Indicators						
Retail sales	6.7	3.1	0.3	**4.0**	4.7	4.8
Housing starts (000s)	46.6	35.8	43.1	**55.6**	60.6	65.3
Personal income	2.1	3.5	1.5	**3.2**	4.4	4.6
Corporate profits	31.9	14.9	7.2	**13.8**	6.5	5.6
Ontario Consumer Price Index	0.1	2.4	1.6	**1.9**	1.9	1.9
Labour market						
Employment*	1.4	1.4	1.5	**1.6-2.4**	2.5-3.6	2.5-3.0
Unemployment rate* (per cent)	9.6	8.7	9.1	**8.4-8.7**	7.9-8.6	7.7-8.2

Sources: Statistics Canada and Ontario Ministry of Finance
*Based on Statistics Canada Labour Force Survey

Paper B

Ontario's Fiscal Plan

Introduction

With the 1997-98 fiscal year, Ontario is well into the Government's five-year plan to balance the budget by the year 2000-01. This year, the deficit will be reduced by over 40 per cent from the $11.3 billion potential deficit outlook facing the Government when it assumed office in June of 1995.

To date, the Province has met, and in fact exceeded, the deficit targets outlined in the Balanced Budget Plan.

At the same time that the deficit has been cut, the Province has invested heavily in priority areas undergoing restructuring, particularly in health care and education.

This paper:

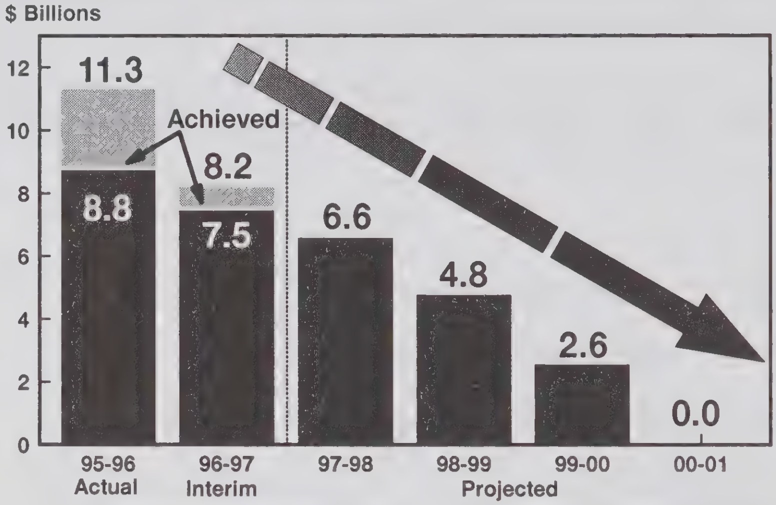
- Outlines the 1997-98 Budget Plan;
- Projects the medium term fiscal outlook; and
- Highlights Ontario's improving fiscal performance.

The paper concludes with a review of the interim financial results for Ontario in 1996-97.

On Track to Balance the Budget

In the fall of 1995, the Government set out its Balanced Budget Plan to eliminate the deficit by the year 2000-01. Ontario remains on track to meet the declining annual deficit targets outlined in the Plan.

Ontario's Balanced Budget Plan on Track
Medium Term Deficit Targets



Note: The potential deficit outlook as of June 1995 of $11.3 billion and the actual deficit of $8.8 billion in 1995-96 have been restated to reflect the reclassification of GO Transit and the Ontario Housing Corporation to government service organizations.

- This is the second year in a row that the deficit target has been over-achieved. The 1995-96 Budget deficit target was over-achieved by $508 million. The interim 1996-97 deficit is $710 million below the target of $8.2 billion.

1997-98 Fiscal Plan

In 1997-98, the deficit will decline by $890 million to $6.6 billion. This represents a decline of over 40 per cent or $4.7 billion from the $11.3 billion deficit outlook facing the government upon assuming office in June of 1995.

1997-98 Fiscal Plan
($ Millions)

	Interim 1996-97	Plan 1997-98	Change $ Millions	Change Per cent
Revenue:				
Taxation	38,136	**37,505**	(631)	(1.7)
Federal Transfers	5,896	**5,295**	(601)	(10.2)
Income from Government Enterprises	1,938	**2,320**	382	19.7
Other Revenue	3,173	**3,280**	107	3.4
Total Revenue	49,143	**48,400**	(743)	(1.5)
Expense:				
Programs	43,012	**41,780**	(1,232)	(2.9)
Restructuring and Other Charges	2,306	**610**	(1,696)	(73.5)
Total Program Expense	45,318	**42,390**	(2,928)	(6.5)
Capital	2,586	**2,750**	164	6.3
Public Debt Interest	8,709	**9,190**	481	5.5
Total Expense	56,613	**54,330**	(2,283)	(4.0)
Reserve	0	**650**	650	-
Deficit	**7,470**	**6,580**	**(890)**	**(11.9)**

- Revenue in 1997-98 is projected to be $48,400 million, a decline of $743 million from 1996-97. This decline is a result of a $601 million cut in federal transfers and $742 million of 1995-96 Personal Income Tax (PIT) revenue included in 1996-97, partially offset by increased Income from Government Enterprises of $382 million.

- Through greater efficiencies and savings, the Government will reduce the 1997-98 planned expenses of the Province by $2,283 million from the 1996-97 interim level of $56,613 million to $54,330 million.

- In keeping with prudent budgeting, a $650 million Reserve has been included in the 1997-98 fiscal plan. The Reserve is designed to protect the fiscal plan against unforeseen risks such as unexpected and adverse changes in the economic outlook and their impact on revenues and public debt interest.

1997-98 Revenue Outlook

Revenue in 1997-98 is projected to be $48,400 million. Tax revenue is projected to decline by $631 million in 1997-98. This decline in tax revenue is due to the inclusion in 1996-97 revenues of $742 million to capture higher 1995-96 Personal Income Tax (PIT) than reported in the 1995-96 Public Accounts. Excluding this adjustment, standardized tax revenue is projected to continue to grow by $111 million or 0.3 per cent in 1997-98 as the current economic expansion continues.

Standardized Tax Revenue*
($ Millions)

	1995-96	1996-97	1997-98
Standardized Tax Revenue	36,730	37,394	37,505

* Tax revenue adjusted to report PIT in the year earned.

1997-98 Revenues
($ Millions)

	Actual 1995-96	Interim 1996-97	Plan 1997-98
Taxation	36,316	38,136	**37,505**
Federal Payments	7,880	5,896	**5,295**
Income from Government Enterprises	1,730	1,938	**2,320**
Other Revenue	3,547	3,173	**3,280**
Total Revenue	**49,473**	**49,143**	**48,400**

- Personal Income Tax revenue is projected at $14,490 million. It includes the impact of the tax rate cut, the Fair Share Health Care Levy and the measures announced in the Budget.

- Retail Sales Tax (RST) is estimated to increase to $10,390 million, as consumer and business spending continues to grow. This projection includes the RST changes announced in the Budget.

- Corporations Tax revenue is projected to grow to $6,450 million due to rising corporate profits. This projection includes the Corporations Tax initiatives announced in the Budget.

- Employer Health Tax (EHT) revenue is projected to decline to $2,640 million as a result of the continuing phase-in of the EHT exemption announced in the 1996 Budget.

- Federal transfers to Ontario will decline by $601 million in 1997-98 from 1996-97 levels. This change is mainly due to a federal cut of $609 million under the Canada Health and Social Transfer (CHST). Beginning April 1, 1996, the federal government replaced the Established Programs Financing (EPF) and the Canada Assistance Plan (CAP) with the CHST. As well, the federal government will cut cash transfers to provinces for health care and other social programs by $7.1 billion, or 42.5 per cent, between 1995-96 and 1998-99. Compared to combined EPF and CAP revenues in 1995-96, federal CHST payments to Ontario will be cut by $2,123 million in 1997-98.

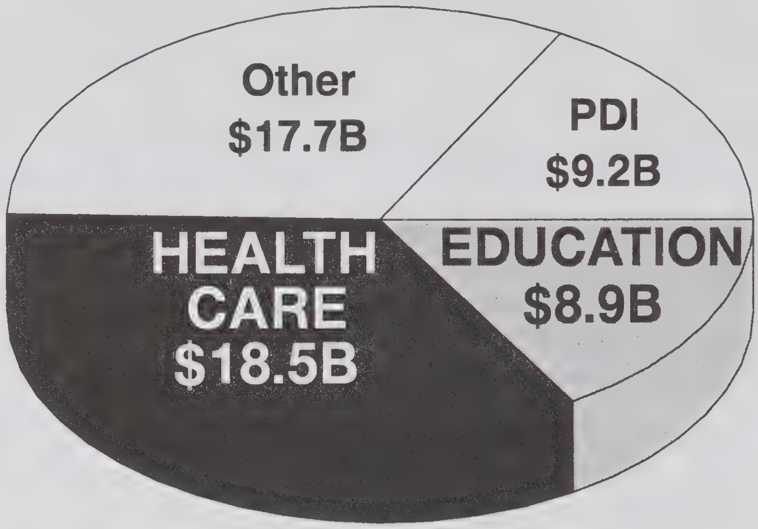
- Income from Government Enterprises is expected to increase by $382 million. Income from Government Enterprises is increasing by $90 million from the introduction of video lotteries in charity gaming clubs and race tracks, and the full-year revenues from Casino Niagara and Casino Rama, which opened during 1996-97.

- Other Revenue, including Vehicle and Driver Registration Fees, Other Fees and Licences, Royalties and Liquor Licence Board of Ontario revenue, is expected to increase by $107 million.

1997-98 Expense Outlook

In 1997-98, the Government will continue to invest heavily in the priority areas of health care and education. For the coming year, more than $27 billion in funding will be made available to support these priorities.

Support for Priority Programs, 1997-98
Total Expense: $54.3 Billion



- The Province is once again signalling its commitment to health care services. This year's funding includes $17.8 billion in program funding. A one-time provision of $450 million has also been made to further support restructuring in the health care system. The capital budget for the Ministry of Health will be $242 million this year, $60 million higher than last year's capital spending. In total, $18.5 billion in health care funding will be provided in 1997-98.

- To continue providing children with an excellent education, schools will receive almost $4.5 billion in provincial grants. Colleges and universities will continue to receive more than $2.2 billion from the Province. More than $450 million will be provided to the Ministry of Education for capital expenses. To reduce the size of government spending outside of the classroom, the number of school boards will be cut approximately in half from 129 and the number of trustees will be reduced by more than half from 1,900.

Investing in Ontario's Infrastructure

The Government of Ontario has agreed to participate in the extension of the Canada-Ontario Infrastructure Works (COIW) program in 1997-98. A total of $459 million will be invested to meet the province's strategic infrastructure priorities. As a result of this initiative, $325 million will be spent by Ontario in conjunction with the federal government. In addition, $134 million will be invested by local partners.

Canada-Ontario Infrastructure Works
($ Millions)

Program	1997-98
Municipal Road and Water and Sewer System Projects	183
Community Care and Long Term Care Facilities	135
Strategic Transportation Highway Projects	83
Post-Secondary Institutions	58
Total	**459**

- Municipalities across Ontario will be invited to propose local road and water and sewer system projects to be funded through this program, up to a maximum of $183 million in 1997-98. The provincial and federal governments will each provide one-third of the funding towards the eligible costs of the projects.
- In concert with local health care partners, funds will be provided to support construction of new community care and long-term care facilities and renovating and redeveloping existing facilities.
- In partnership with municipalities, infrastructure projects that attract and complement private-sector investments in all regions of the province will be funded under this program. In addition, strategic transportation highways will be rehabilitated in all regions of Ontario.
- In conjunction with the province's colleges and universities, funds will be provided to repair post-secondary facilities across the province.

Municipal Capital and Operating Restructuring Fund

In January, through the Who Does What exercise, the Ontario Government proposed a new arrangement for provincial-municipal responsibilities. This plan was designed to control spiralling education costs, end duplication in the delivery of services between the provincial and municipal governments and create tax fairness across the province. The Government made it clear that it was open to changes in the proposal which would make it easier to meet these objectives.

After several months of discussion, municipal representatives offered an alternative solution that reflected the views of a broad cross-section of interests. On May 1, 1997 the Government accepted the proposed alternative and will now proceed with the necessary implementation. The fiscal implications of the revised Who Does What arrangements have been reflected in this Budget.

The Province is providing at least $800 million in transition assistance through the Municipal Capital and Operating Restructuring Fund. Additional funds will be available based on demonstrated need.

Municipal Capital and Operating Restructuring Fund
($ Millions)

Program	1996-97	1997-98	Future Years	Total
Water and Sewer Systems	-	40	160	200
Non-Profit and Co-operative Housing	150	23	-	173
Transportation	200	-	-	200
Unallocated	-	137	90	227
Total	**350**	**200**	**250**	**800+**

- Through the Ministry of Environment and Energy, a total of $200 million, including $40 million in 1997-98, will be provided over the next three years to help municipalities invest in water and sewer systems. This transitional assistance will help municipalities to assume full responsibility for operating and financing water and sewer systems. The fund will target those municipalities requiring financial assistance to address immediate public health and environmental risks.

- The Government has provided $173 million for non-profit and co-operative housing major capital reserves funded through the Ministry of Municipal Affairs and Housing. Contributions into these reserves were suspended by the previous government as a constraint measure. The contributions have been reinstated to ensure that the proper resources are available to maintain and upgrade these housing projects.

- In recognition of transit, GO Transit and ferry-related needs that result from the re-alignment of responsibilities, $200 million is being provided to municipalities to seed their capital reserves.

- At least an additional $227 million will be made available to municipalities to assist them with their other transition requirements.

In addition to this transition assistance through the Municipal Capital and Operating Restructuring Fund, $42 million in additional funds will be provided to the Ontario Housing Corporation's 1997-98 capital budget to help municipalities assume responsibility for managing the public housing stock in the province. Along with federal support, this year's budget for capital repairs and renovations will be $100 million.

The Government will also be providing an additional $225 million to address needs associated with the transfer of approximately 3,400 kilometres of highways to municipalities. The highways to be transferred are significantly less than the 9,000 kilometres originally contemplated by the Who Does What Panel.

The Community Reinvestment Fund and Additional Transition Assistance will ensure that fiscally vulnerable communities are not unduly affected. These Funds will provide $142 million in 1997-98 and $570 million annually in subsequent years.

Ensuring Efficient and Effective Government

Over the past year, the Honourable David Johnson, Chair of Management Board, has led a government-wide initiative directed at restructuring administrative services. All areas of administration have been examined to ensure a smaller, more efficient system. In support of this objective, a number of initiatives are under way that incorporate standardization of procedures, streamlining of processes, integration and coordination of functions among ministries, and the out-sourcing of services to the private sector. Examples of projects implemented or under way include:

- Electronic invoicing and payments with large vendors which, once fully implemented, will eliminate financial data-entry processes with large vendors dealing with the government.
- Implementation of new private-sector long distance telephone services through competitive tender, which has reduced costs substantially across the government for long distance voice and calling card expenditures.
- Closure of the government's GO-Temp operation with temporary staff now fully supplied by the private sector.
- Purchasing cards used by designated employees for the purchase of low-dollar value goods and services. Operating savings are being realized through reduced petty cash and accounts payable invoice processing and lower cheque volumes.
- The warehousing function for the province's Publications Ontario operation is now being met by a private-sector firm.
- Several ministries have reduced overlap and duplication by sharing support services, information systems, and administrative processing.

This restructuring is taking place over time. The end result will be a smaller, more efficient administrative structure in the government. Other measures that will complement this work include:

- The Treasury Board Act, 1991 will be changed to allow for greater delegation of financial authority to ministries to capture administrative and operational efficiencies.
- Ontario will change the basis on which the debt guarantee fee currently paid by Ontario Hydro to the Province is calculated. This will reflect more accurately Ontario's obligations under its guarantee of Ontario Hydro's borrowings.

An Open and Accountable Government

Part of being an accountable government is openness and the willingness to listen. In keeping with this principle, the Government is launching a number of initiatives for more effective administration.

Assessment Services

The Government will work with the municipal sector to transfer control of the delivery of property assessment services. Legislation will be introduced to establish an efficient and effective assessment function at the municipal level.

Financial Services Reform

The Government will table legislation to create the Financial Services Commission of Ontario. The creation of the FSC will result in more efficient and coordinated protection for consumers and pension plan members in Ontario. The FSC will retain an independent appeal function for pension and other regulatory matters.

Securities Commission Reform

As part of its spending control strategy, the Government has focused on eliminating costly overlap and duplication.

Ontario and the federal government have discussed ways to reduce duplication and overlap in securities regulation and in the administration of the tax system. However, the federal government has not acted in either area.

Business and investors need access to capital markets in order to grow and support job creation. While Ontario has indicated that it would participate in a Canadian Securities Commission, Ottawa has not acted. Therefore, the Province will introduce legislation this spring to strengthen the Ontario Securities Commission and to reduce regulatory costs to investors and businesses. This arrangement would not preclude a later transition to a Canadian Securities Commission.

Tax Administration Reform

Ottawa has also been slow to act on creating a national tax administration system that is simple, cost-effective and committed to quality services for taxpayers. The Government will seek expert independent advice to look for better ways to administer the Ontario tax system, reduce costs and improve service to taxpayers.

Pension Benefits Act Reform

Ontarians have indicated that the Province's pension legislation is complex, inefficient and costly. They have also experienced frustration because of an inability to access their pension money in locked-in retirement accounts, specifically in cases of hardship.

To address these and related concerns, the Government will consult with the pension community on ways of streamlining the regulatory system while ensuring that employees' rights are protected. The Government is also interested in exploring with other governments the possibility of moving towards a single regulatory regime for pensions.

Loan and Trust Companies Regulatory Reform

Ontario is also discussing with the federal government ways of eliminating overlap and duplication in the loan and trust regulatory system. In order to complete these discussions, legislation will be introduced to extend the sunset period in the Loan and Trust Corporations Act.

Public Sector Accountability

The Public Sector Accountability Act will be introduced and will require publicly funded organizations to follow best practices in managing their operations. This includes requiring them to report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

This Act will require these organizations to disclose to the public, in a corporate plan and annual report, information on the objectives of the organization, the plan for carrying out these objectives, the resources required and performance against their plan. It will also require them to benchmark their activities against the public and private sector to ensure that best practices are followed, and to provide a plan to move towards best practices in those situations where they have fallen behind.

This process will require organizations to identify opportunities to improve service delivery and involve the private sector in the design and delivery of those services. Organizations will also be required to develop and communicate measurable performance indicators.

These changes will ensure that all money being spent by publicly funded organizations is being wisely, prudently and efficiently spent for the intended purpose, regardless of the source of the money.

Medium Term Fiscal Outlook

Over the medium term, Ontario's deficit will continue on its downward track toward a balanced budget. In 1998-99, the deficit outlook will be reduced by a further $1.8 billion from $6.6 billion in 1997-98 to $4.8 billion.

Medium Term Fiscal Outlook ($ Billions)

	Interim 1996-97	Plan 1997-98	Outlook 1998-99
Revenue	49.1	**48.4**	48.8
Expense			
Programs	43.0	**41.8**	40.8
Restructuring and Other Charges	2.3	**0.6**	0.1
Total Programs	45.3	**42.4**	40.9
Capital	2.6	**2.8**	2.4
Public Debt Interest	8.7	**9.2**	9.6
Total Expense	56.6	**54.3**	52.9
Reserve	0.0	**0.7**	0.7
Deficit	7.5	6.6	4.8

Note: Numbers may not add due to rounding.

- By 1998-99, the Government will have reduced the Provincial deficit by $6.5 billion or 58 per cent from the $11.3 billion potential deficit outlook it faced in June of 1995.

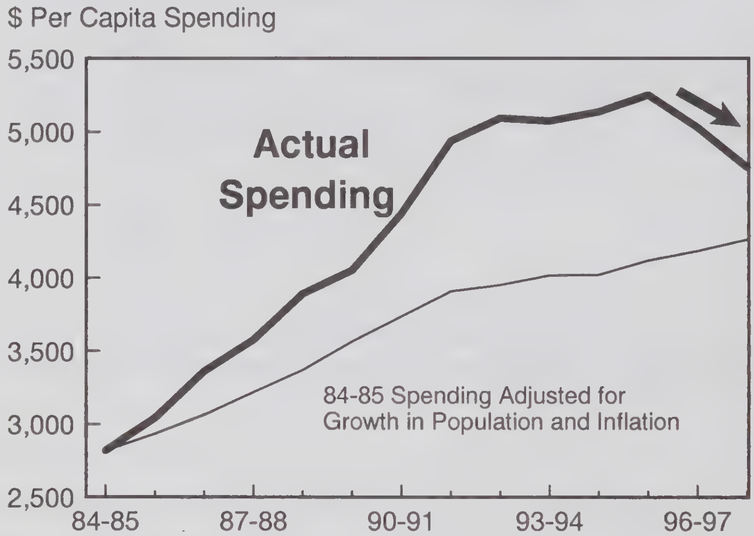
- By controlling costs and identifying greater efficiencies and savings, the Government will maintain total program costs in 1998-99 below the level of program costs in 1996-97 and 1997-98.

Ontario's Improving Fiscal Performance

Turning the Corner on the Fiscal Plan

Since assuming office, the Government has taken firm action to restore the fiscal health of the Province. Between 1984-85 and 1995-96, spending grew much faster than the growth in population and inflation. Since then, government spending has been reduced and will continue to fall.

Less Government, Lower Spending



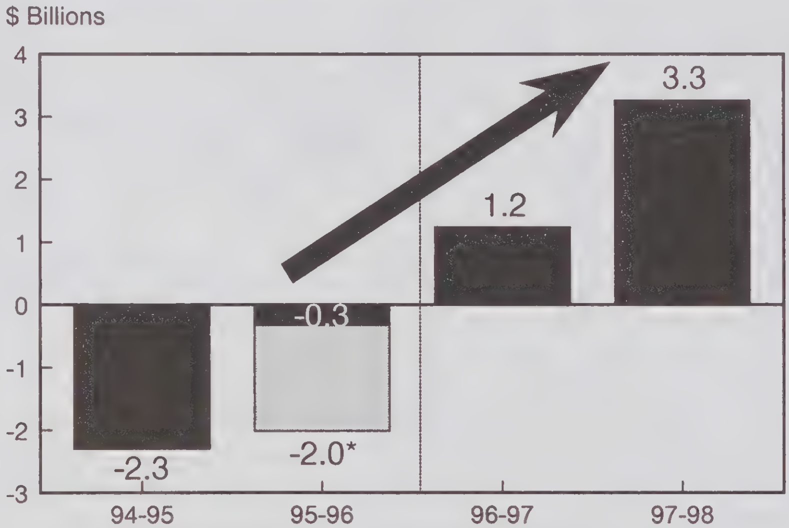
- After increasing in the late 1980s and early 1990s, spending will be reduced to $4,759 per capita in 1997-98, a decline of 5.4 per cent from the previous year.

Achieving an Operating Surplus in 1996-97

Ontario's Balanced Budget Plan will ensure that total government spending does not exceed revenue in the year 2000-01. Already, Ontario has achieved an important milestone by recording an operating surplus of $1.2 billion in 1996-97.

The operating balance is an indicator used by the federal government to show the amount by which total revenues exceed spending on all programs. It is calculated as the difference between government revenue and total spending on all programs, not including public debt interest.

Operating Balance Now in Surplus



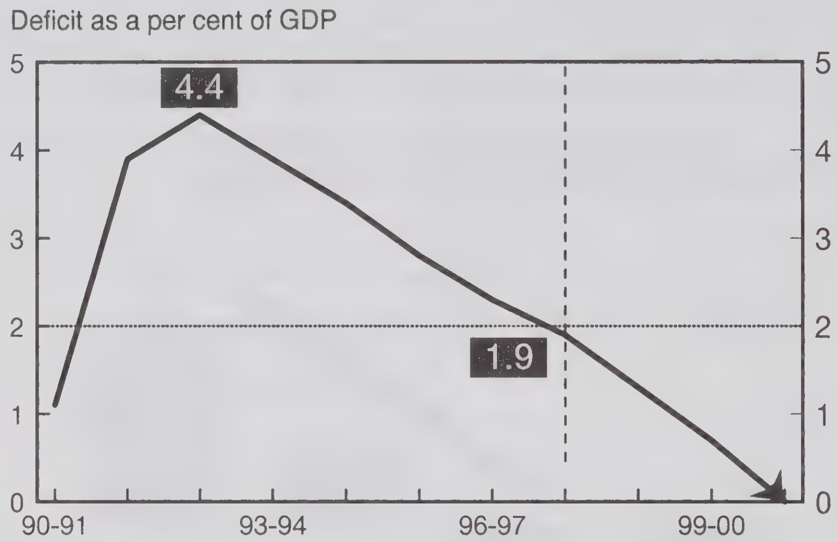
* Potential operating deficit of $2.0 billion when the government assumed office in June, 1995.

- Ontario has gone from an operating deficit in 1994-95 of $2.3 billion to an operating surplus in 1996-97 of $1.2 billion. The operating surplus will grow further to $3.3 billion in 1997-98.

Reducing the Deficit to Below Two Per Cent of GDP in 1997-98

A further indicator of Ontario's improving fiscal health is the falling ratio of the deficit as a share of the economy. In 1997-98, Ontario's deficit will decline to below 2 per cent of Gross Domestic Product (GDP).

Deficit Below 2% of GDP in 1997-98

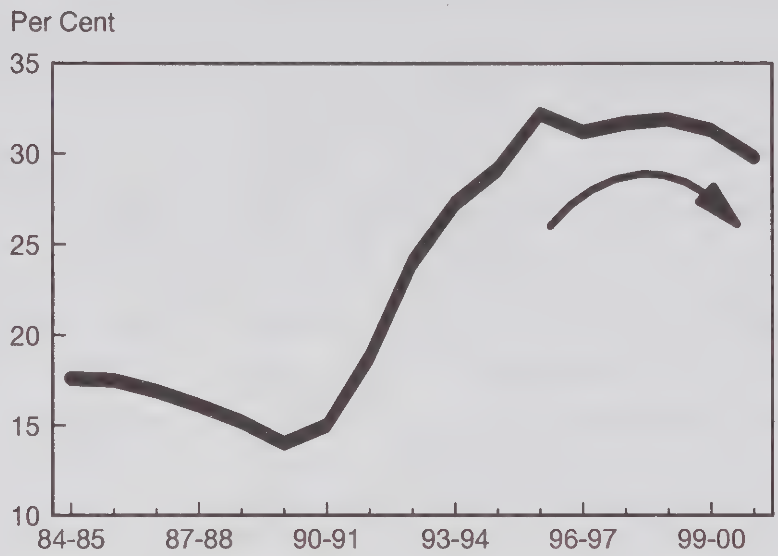


- In the early 1990s, Ontario's budgetary deficit rose significantly, reaching a peak of 4.4 per cent of provincial GDP in 1992-93. Under the Balanced Budget Plan, the deficit will be reduced to 1.9 per cent of GDP this year and will continue to fall in future years.

Reducing Debt as a Per Cent of GDP in 1998-99

As a result of the Government's Balanced Budget Plan, the growth in the ratio of debt to GDP will halt in 1998-99 and will begin to decline.

Debt as a Per Cent of GDP Stabilized in 1998-99



- In 1998-99, Ontario's debt as a share of GDP will stabilize at 32.1 per cent, and begin to fall annually thereafter.
- In 1995-96, $5.6 billion of debt was pre-borrowed to meet 1996-97 financing requirements and to take advantage of favourable market conditions at that time. This borrowing caused the temporary upswing in the ratio of debt to GDP in 1995-96.

1996-97 In-Year Fiscal Performance

A Second Year of Over-Achieving the Deficit Target

For the second consecutive year, the deficit target for the year just completed has been over-achieved. At $7.5 billion, the interim deficit for 1996-97 is $710 million below the Budget target of $8.2 billion.

1996-97 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Revenue	46,660	49,143	2,483
Expense			
Programs	41,841	43,012	1,171
Restructuring and Other Charges	900	2,306	1,406
Total Program Expense	42,741	45,318	2,577
Capital	2,704	2,586	(118)
Public Debt Interest	8,745	8,709	(36)
Total Expense	54,190	56,613	2,423
Reserve	650	0	(650)
Deficit	8,180	7,470	(710)

- The interim results for 1996-97 incorporate recent changes to the Public Sector Accounting and Auditing Board (PSAAB) recommendations for reporting the activities of government agencies. These changes required GO Transit and the Ontario Housing Corporation (OHC) to be reclassified as government service organizations on the basis that their operations are not self-sustaining from non-provincial revenue sources.
  - The reclassification of GO Transit and OHC added $1,010 million to 1996-97 interim revenue and increased program, capital and interest expenses by a total of $1,123 million.
  - Actual results for 1995-96 have been re-stated to be consistent with these changes. The re-stated 1995-96 deficit is $8,800 million, $74 million higher than reported in Public Accounts.

- Revenue was $2,483 million higher than expected in the Budget Plan. This gain reflects both the strength of the economy and the cautious nature of the Budget projections. The gain also reflects the following factors:
  - The reclassification of the Ontario Housing Corporation and GO Transit as government service organizations; and
  - The increase in Personal Income Tax (PIT) revenues includes $742 million to take account of the under-estimate of 1995-96 PIT revenues in the 1995-96 Public Accounts.
- Total expenses were $2,423 million above the Plan, largely due to a $1,406 million increase in the Restructuring Fund for necessary restructuring investments and other charges, and a $1,123 million increase resulting from the accounting adjustment to reflect the Ontario Housing Corporation and GO Transit as government service organizations.
- The $650 million Reserve, included in the 1996 Budget to protect the Budget Plan against unforeseen risks such as unexpected and adverse changes in the economic outlook, was not used and contributed towards the over-achievement of the 1996-97 deficit target.

Ontario Opportunities Fund

The Ontario Opportunities Fund was established in the 1996 Budget to provide for debt and deficit reduction. The Fund receives savings realized from the over-achievement of a deficit target in a given fiscal year, contributions from Ontarians, and proceeds from major asset sales.

The $710 million over-achievement of the 1996-97 deficit target has been applied to the Ontario Opportunities Fund.

Ontario Opportunities Fund
($ Millions)

		Interim 1996-97
Provincial Purpose Debt at April 1, 1996		101,396
Add: Borrowing requirements to finance projected deficit of $8,180 million and investments in agencies	6,604	
Decrease in liquid reserves	(5,669)	
Increase in debt:		935
Debt before Ontario Opportunities Fund		102,331
Less:		
Ontario Opportunities Fund		
Over-achievement in 1996-97 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	710	
Fund balance applied to Debt Reduction		(710)
Provincial Purpose Debt at March 31, 1997		101,621

* There were no major asset sales in 1996-97. Contributions from Ontarians amounted to $7,770 in 1996-97.

- Including the over-achievement of the 1995-96 deficit target of $508 million, the Ontario Opportunities Fund has reduced the Province's planned borrowing by a cumulative total of $1,218 million to date. The reduced borrowing saved the Province $67 million in public debt interest costs in 1996-97.

1996-97 Restructuring Charges

In addition to applying its over-achievement of the deficit target to the Ontario Opportunities Fund, the Government made significant investments in key areas to promote restructuring efforts, which will provide more efficient and effective services in such areas as health care and municipalities. Government restructuring decisions made in-year also led to one-time charges.

1996-97 Restructuring and Other Charges
($ Millions)

		Interim 1996-97
Restructuring Charges		
Health care restructuring	850	
Municipal restructuring		
Highway transfers to municipalities	350	
Municipal Capital and Operating Restructuring Fund:		
Transportation-related needs	200	
Non-profit and co-operative housing	150	
Ontario Public Service (OPS) restructuring	506	
Total Restructuring Charges		**2,056**
Other Charges		
Early retirement incentive program for teachers	250	
Total Other Charges		**250**
Total Restructuring and Other Charges		**2,306**

- In recognition of the scale of restructuring taking place in the Province, total restructuring and other charges amounted to \$2.3 billion. This represents an increase of \$1.4 billion above the \$900 million provision initially set aside for restructuring in the 1996 Budget.

- During the year, the Government approved a strategy to significantly re-invest in Ontario's health care sector to meet the challenges faced by restructuring and re-aligning hospital services. A restructuring provision of \$850 million is included in 1996-97 to account for the Government's share of costs in those individual communities where hospital restructuring and re-alignment plans exist. These actions will lead to a more efficient and better-managed health care system to better meet the needs of patients.

- Over the past year, the Government of Ontario has made a number of decisions which involve the restructuring of the municipal sector, resulting in charges totalling $700 million in 1996-97:

  - The Government has made a provision of $350 million to municipalities as a result of the transfer of highways and the associated highway connecting links to municipalities. This includes $225 million for the transfer of 3,400 kilometres of highways related to the Who Does What initiative and $125 million for previously announced highway transfers.

  - Through the Municipal Capital and Operating Restructuring Fund, the Government has also made a provision of $200 million to municipalities for transportation-related needs and $150 million to non-profit and co-operative housing providers. This will help them in dealing with the re-alignment of responsibilities that result from decisions made following receipt of the recommendations of the Who Does What panel review.

- Decisions made over the past year have also led to Ontario Public Service restructuring charges of $506 million, including $435 million for employee severance costs resulting from reductions in the size of the Ontario Public Service. A further restructuring charge of $71 million was provided for exit costs associated with the implementation of decisions concerning the transfer of certain areas of provincial responsibility to the municipal level of government. These costs include such activities as training, education and information systems.

- The Government has made a provision of $250 million in the 1996-97 fiscal year for the Province's share of the cost of an early retirement incentive for teachers.

1996-97 In-Year Revenue Changes

Total revenue in 1996-97, at $49,143 million, was $2,483 million above the $46,660 million level projected in the 1996 Budget. The strength of the economy and the cautious nature of the Budget projections both contributed to the revenue gain. Revenues in 1996-97 were also boosted by the following factors:

- The inclusion of $742 million in 1996-97 PIT to take account of higher 1995-96 PIT revenues than included in the 1995-96 Public Accounts; and

- Federal Payments, Income from Government Enterprises and Other Revenue were all increased by the reclassification of the Ontario Housing Corporation and GO Transit from Government Enterprises to government service organizations.

Summary of In-Year Changes to Revenue in 1996-97
($ Millions)

Taxation Revenue		
Personal Income Tax	1,135	
Corporations Tax	461	
Retail Sales Tax	250	
Land Transfer Tax	50	
Tobacco Tax	50	
Employer Health Tax	40	
All Other (Including Gas, Fuel and Mining Profits Taxes)	(18)	
		1,968
Federal Payments		
Social Housing	442	
Canada Health and Social Transfer	(446)	
Canada-Ontario Infrastructure Works	(85)	
All Other (Including Young Offenders and Vocational Rehabilitation)	(45)	
		(134)
Income from Government Enterprises		
Ontario Housing Corporation	232	
GO Transit	157	
Ontario Casino Corporation	(59)	
Ontario Lottery Corporation	(53)	
All Other (Including Ontario Clean Water Agency)	(21)	
		256
Other Revenue		
Sales and Rentals	324	
Miscellaneous	83	
Fines and Penalties	40	
All Other (Including Vehicle and Driver Registration Fees)	(54)	
		393
Total In-Year Revenue Changes		**2,483**

- The strength of the economy helped to raise tax revenues $1,968 million above the prudent Budget projection. Personal Income Tax revenue was $1,135 million above the Budget projection as a result of stronger-than-expected income growth in 1995 and continued employment and income growth in 1996. Of this increase, $742 million is due to higher 1995-96 PIT than was reported in the 1995-96 Public Accounts. Under PSAAB guidelines, the difference between the higher estimate and the 1995-96 Public Accounts estimate is recorded in 1996-97.

- Corporations Tax revenue was $461 million or 8.6 per cent higher, reflecting both the cautious nature of the Budget projection and the strength of corporate profits.

- Retail Sales Tax was $250 million or 2.6 per cent above projection due to stronger growth in consumer and business spending (1996 nominal consumption was 2.7 per cent, compared to 1996 Budget projection of 2.5 per cent) and the caution built into the Budget projection.

- The strong resale housing market pushed Land Transfer Tax revenue over the Budget projection by $50 million or 13.7 per cent. The number of housing resales in Ontario rose 31.3 per cent in 1996.

- Tobacco Tax was $50 million or 15.2 per cent above the Budget projection due to the increase of 0.35 cents per cigarette in the federal tobacco tax in November 1996 and stronger-than-expected sales.

- Employer Health Tax revenue was $40 million or 1.5 per cent higher, largely reflecting the cautious nature of the Budget projection.

- Increased Social Housing revenue of $442 million includes social housing payments of $305 million made to the Ontario Housing Corporation (OHC), now shown as a federal payment as a result of the accounting reclassification of the OHC to a government service organization, and $137 million in federal payments made to the Ministry of Municipal Affairs and Housing, previously reported as part of “Other” federal payments.

- Revenue from the Canada Health and Social Transfer was down $446 million from the Budget projection as a result of stronger-than-expected Personal Income Tax revenue. Under the federal Canada Health and Social Transfer allocation formula, an increase in the value of Ontario’s income tax points, transferred to Ontario in 1977, results in lower federal cash payments to the Province.

- A slowdown in the pace of construction of Canada-Ontario Infrastructure Works projects resulted in an $85 million decline in 1996-97 federal infrastructure payments compared to the Budget projection.

- Higher-than-projected Income from Government Enterprises primarily reflects the reclassification of the Ontario Housing Corporation and GO Transit, which removed a combined loss of $389 million from this revenue category. These gains were partially offset by the delay in the implementation of Video Lotteries to 1997-98 from 1996-97, which reduced income from the Ontario Lottery Corporation. Casino Corporation income was $59 million or 10.3 per cent below projection, mainly due to a one-month delay in the opening of Casino Niagara.

- Sales and Rentals revenue increased by $324 million, largely due to $316 million from the inclusion of the gross revenue of the Ontario Housing Corporation and GO Transit.

- Miscellaneous revenue was higher by $83 million or 23.5 per cent, partly as a result of OHIP subrogation. Fines and Penalties were $40 million or 40 per cent higher as a result of higher fines under the Highway Traffic Act and an underestimate of the accounts receivable balance in the 1996 Budget Outlook.

1996-97 In-Year Operating Expense Changes

Operating expenses increased $2,541 million above the Budget Plan of $51,486 million to $54,027 million, mainly due to a $1,406 million in-year increase in restructuring and other charges, and a $993 million increase arising from the accounting reclassification of GO Transit and the Ontario Housing Corporation to government service organizations.

Summary of In-Year Operating Expense Changes
($ Millions)

		Interim 1996-97
Program Expense Changes:		
Restructuring and other charges — in-year increase	1,406	
Reclassification of GO Transit and the Ontario Housing Corporation to government service organizations — increase in program expense	743	
Ontario Student Opportunities Trust Fund — increase in matching contributions to trust funds	150	
Drug Benefits program — increased utilization	114	
Ontario Student Assistance Program (OSAP) — social assistance recipients transferred to OSAP	50	
Extra forest fire fighting — Increase in Ministry of Natural Resources expenses	50	
Crop Insurance — claims for bad winter wheat harvest	49	
General Legislative Grants — increase due to only partial recovery of funds owing from the Metro Toronto and Ottawa public school boards	46	
Province-wide property assessment	20	
Interim financial assistance to the horse racing industry — offset by revenue increase	20	
OPS/OPSEU Pension expense — revised estimate	(139)	
Ontario Works Program — delay in start-up	(65)	
Other changes (net)	133	
Total Program Expense Changes		**2,577**
Public Debt Interest Changes:		
Public Debt Interest expense increase due to reclassification of GO Transit and OHC	250	
Public Debt Interest — in-year expense savings	(286)	
Total Public Debt Interest Changes		**(36)**
Total In-Year Operating Expense Changes		**2,541**

- Restructuring and other charges totalled $2,306 million, $1,406 million more than the $900 million initially allocated to the Restructuring Fund. Charges included $850 million for health care restructuring costs, $700 million for municipal restructuring costs, $506 million for OPS restructuring costs, and $250 million for the early retirement option for teachers.

- Consolidating the expenses of GO Transit and the Ontario Housing Corporation increased program expenses by $743 million from the Budget Plan, and increased public debt interest costs by $250 million.

- Response to the Ontario Student Opportunities Trust Fund initiative announced in the 1996 Budget far exceeded expectations. Consequently, the government provided an additional $150 million in matching funds for individual university and college trust funds during 1996-97, raising the total to $250 million. Monies from each fund will be used to assist academically qualified individuals who for financial reasons would not otherwise be able to attend college or university.

- The Drug Benefits program incurred an overall increase in expenses of $114 million in-year, mainly due to increased utilization under the Special Drugs Program and the Ontario Drug Benefit plan (ODB).

- Due to higher-than-anticipated costs associated with the transfer of 17,000 social assistance recipients to the Ontario Student Assistance Program (OSAP), program expenses were increased by $50 million.

- To combat an increase in forest fires in the summer of 1996, an additional $50 million in costs was incurred by the Ministry of Natural Resources.

- The payment of Crop Insurance claims for a bad winter wheat harvest resulted in an increase in expenses of $49 million.

- Grants to school boards increased by $46 million in-year as a result of the Ministry of Education and Training only having partial recovery of funds owing from the Metro Toronto and Ottawa public school boards.

- The implementation of province-wide value-based property re-assessment resulted in an increase of $20 million in Ministry of Finance expenses.

- Interim financial assistance of $20 million was provided to the horse-racing industry for Sire Stakes, overnight purse supplements and equine research. The expenditure increase was offset by an increase in provincial revenues from horse racing collected between July 1 and September 30, 1996. Effective September 30, 1996, the Race Tracks Tax Sharing Agreement was replaced by the pari-mutuel tax reduction announced in the 1996 Budget.

- The $139 million in-year decrease in OPS/OPSEU pension expense was mainly the result of the use of more current assumptions reflecting a low inflation outlook and higher earnings.

- Savings of $65 million under the Ontario Works Program were realized due to delays in the start-up of Ontario Works programs in municipalities.

- The increase in public debt interest costs of $250 million resulting from the reclassification of GO Transit and OHC was more than offset by other savings of $286 million in public debt interest costs. These savings arose from several factors: a decline in public market borrowing from the Budget estimate of $10 billion to $6.5 billion; a decline in interest rates during the year which made the prudent contingency provision included in the Budget unnecessary; and effective risk-management activities that further lowered borrowing costs.

1996-97 In-Year Capital Expense Changes

Interim capital expenses were $2,586 million, $118 million below the Budget Plan of $2,704 million. The table below summarizes the major capital changes that have occurred during the fiscal year.

Summary of In-Year Capital Expense Changes
($ Millions)

	Interim 1996-97
Reclassification of GO Transit and the Ontario Housing Corporation to government service organizations — impact on capital expenses	130
Canada-Ontario Infrastructure Works — slowdown in pace of construction	(169)
Merger of the Telecommunications Access Partnerships (TAP) with the Ontario Network Infrastructure Program (ONIP) and savings from the wind-down of the Jobs Ontario Community Action program	(32)
Courts construction — savings due to delays in construction	(18)
Northern Ontario Heritage Fund Corporation — Lower-than-anticipated spending	(18)
Other changes (Including Henley Regatta, Highway 416)	(11)
Total In-Year Capital Expense Changes	**(118)**

- Consolidating the expenses of GO Transit and the Ontario Housing Corporation (OHC) contributed to an increase of $130 million in capital expenses from the Budget Plan.

- A slowdown in the pace of construction for Canada-Ontario Infrastructure Works projects resulted in a $169 million reduction in 1996-97 expenses.

- Savings of $32 million in 1996-97 occurred as a result of the merger of the Telecommunications Access Partnerships (TAP) with the Ontario Network Infrastructure Program (ONIP) and savings from the wind-down of the Jobs Ontario Community Action program.

- Savings of $18 million in 1996-97 for court construction resulted from delays arising from design and construction modifications to various projects.

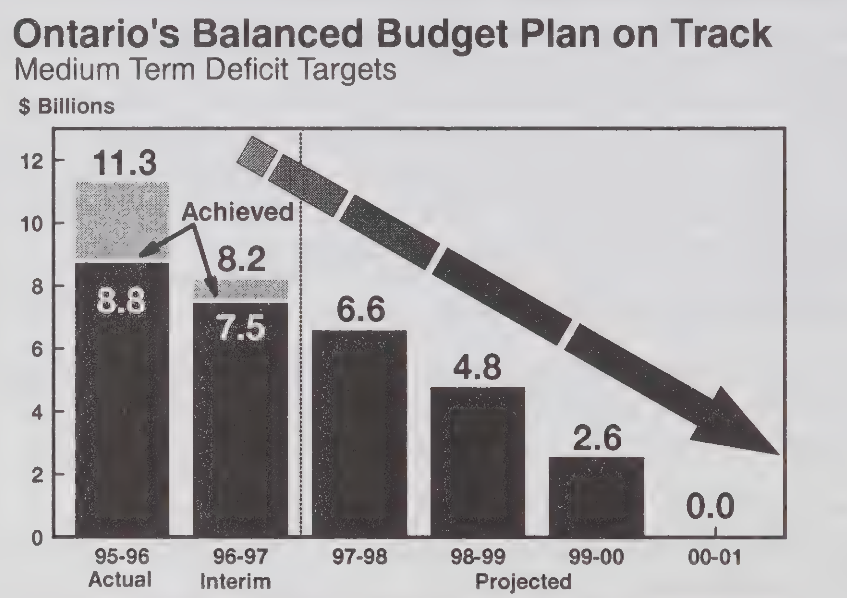
- The revised mandate of the Northern Ontario Heritage Fund Corporation in 1996-97 resulted in capital under-expenditure of $18 million.

Conclusion

Since assuming office, the Government has made significant progress in addressing the untenable fiscal and economic situation it inherited.

The Province's fiscal environment, guided by the Government's Balanced Budget Plan, is now one of stability and continuous improvement. Taxes are lower, spending and debt levels are being brought under control, and for the second year in a row, the deficit target has been over-achieved. At the same time, the Government has made sizeable investments in priority areas such as health care, education, and research and development.

The Government's strong commitment to the Balanced Budget Plan will ensure that future generations of Ontarians will continue to receive necessary programs and services.



Note: The potential deficit outlook as of June 1995 of $11.3 billion and the actual deficit of $8.8 billion in 1995-96 have been restated to reflect the reclassification of GO Transit and the Ontario Housing Corporation to government service organizations.

Financial Tables and Graphs

Statement of Financial Transactions **Table B1**
($ Millions)

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Interim 1996-97	Plan 1997-98
Revenue	43,674	46,039	49,473	49,143	48,400
Expense					
Programs	44,195	44,505	44,811	43,012	41,780
Restructuring and Other Charges			1,352	2,306	610
Total Program Expense	44,195	44,505	46,163	45,318	42,390
Capital	3,552	3,831	3,635	2,586	2,750
Public Debt Interest	7,129	7,832	8,475	8,709	9,190
Total Expense	54,876	56,168	58,273	56,613	54,330
Reserve	-	-	-	-	650
Deficit	**11,202**	**10,129**	**8,800**	**7,470**	**6,580**

Note: 1995-96 financial results restated to reflect reclassification of GO Transit and Ontario Housing Corporation to government service organizations.

Ontario Opportunities Fund **Table B2**
($ Millions)

		1996-97
Provincial Purposes Debt at April 1, 1996		101,396
Add: Borrowing requirements to finance projected deficit of $8,180 million and investments in agencies	6,604	
Decrease in liquid reserves	(5,669)	
Increase in debt:		935
Debt before Ontario Opportunities Fund		102,331
Less:		
Ontario Opportunities Fund		
Over-achievement in 1996-97 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	710	
Fund Balance Applied to Debt Reduction		(710)
Provincial Purpose Debt at March 31, 1997		101,621

* There were no major asset sales in 1996-97. Contributions from Ontarians amounted to $7,770 in 1996-97.

Revenue **Table B3**
($ Millions)

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Interim 1996-97	Plan 1997-98
Taxation Revenue					
Personal Income Tax	14,723	14,758	15,633	16,348	14,490
Retail Sales Tax	8,124	9,090	9,424	9,770	10,390
Corporations Tax	3,447	4,557	5,174	5,831	6,450
Employer Health Tax	2,665	2,640	2,695	2,705	2,640
Gasoline Tax	1,907	1,939	1,944	1,945	1,970
Fuel Tax	460	495	500	521	545
Tobacco Tax	724	322	337	380	415
Land Transfer Tax	321	372	342	415	450
Mining Profits Tax	85	86	71	54	60
Race Tracks Tax	76	84	92	49	10
Preferred Share Dividends Tax	59	56	65	73	60
Other Taxation	68	60	39	45	25
	32,659	**34,459**	**36,316**	**38,136**	**37,505**
Government of Canada					
Canada Health and Social Transfer	-	-	-	4,814	4,205
Established Programs Financing	3,790	4,059	3,820	-	-
Canada Assistance Plan	2,399	2,577	2,508	-	-
Fiscal Stabilization	227	184	367	-	-
National Training Act	76	75	55	32	-
Bilingualism Development	70	65	62	42	48
Young Offenders	59	82	61	61	59
Vocational Rehabilitation	65	61	63	64	64
Canada-Ontario Infrastructure Works	-	159	350	138	201
Social Housing	-	-	384	442	476
Other	385	345	210	303	242
	7,071	**7,607**	**7,880**	**5,896**	**5,295**
Income from Government Enterprises					
Ontario Lottery Corporation	602	631	651	683	785
Liquor Control Board of Ontario	599	637	667	714	730
Ontario Casino Corporation	-	316	422	516	740
Ontario Housing Corporation	(277)	(273)	-	-	-
GO Transit	(136)	(166)	-	-	-
Other	(23)	(77)	(10)	25	65
	765	**1,068**	**1,730**	**1,938**	**2,320**
Other Revenue					
Vehicle/Driver Registration Fees	695	751	736	760	805
Other Fees and Licences	663	686	631	659	625
Liquor Licence Board of Ontario Revenues	522	532	530	521	525
Royalties	239	223	263	266	225
Sales and Rentals	486	98	497	391	445
Fines and Penalties	141	163	143	140	90
Miscellaneous	433	452	747	436	565
	3,179	**2,905**	**3,547**	**3,173**	**3,280**
Total Revenue	43,674	46,039	49,473	49,143	48,400

Operating Expense **Table B4**
($ Millions)

Ministry	Actual 1993-94	Actual 1994-95	Actual 1995-96	Interim 1996-97	Plan 1997-98
Agriculture, Food and Rural Affairs	474	383	400	400	405
Crop Insurance Claims	59	26	20	74	45
Attorney General	827	830	1,085	604	654
Board of Internal Economy	137	135	206	128	119
Citizenship, Culture and Recreation	370	408	363	312	280
Community and Social Services	9,165	9,364	8,816	8,025	7,848
Consumer and Commercial Relations	175	150	140	127	94
Economic Development, Trade and Tourism	416	463	385	219	201
Education and Training	8,691	8,357	8,390	7,859	7,735
Teachers' Pension Plan	467	643	812	1,174	745
Environment and Energy	390	272	239	160	150
Executive Offices	13	10	13	13	13
Finance - Own Account	636	425	701	492	445
Public Debt Interest	7,129	7,832	8,475	8,709	9,190
Municipal Capital and Operating Restructuring Fund	-	-	-	-	137
Community Reinvestment Fund	-	-	-	-	142
Health	17,375	17,599	17,607	17,844	17,845
Health Care Restructuring	-	-	-	850	450
Intergovernmental Affairs	7	6	5	4	4
Labour	180	135	135	108	106
Management Board Secretariat	116	823	554	732	353
Public Service/OPSEU Pension Plan	737	682	685	145	145
Contingency Fund	-	-	-	-	380
Employee Severance	-	-	400	435	-
Municipal Affairs and Housing	1,559	1,487	2,421	2,457	2,020
Municipal Capital and Operating Restructuring Fund	-	-	-	150	23
Native Affairs Secretariat	14	16	16	18	9
Natural Resources	502	478	519	426	369
Northern Development and Mines	83	54	66	40	41
Office of Francophone Affairs	3	3	2	2	2
Office Responsible for Women's Issues	23	22	18	14	20
Solicitor General and Correctional Services	1,168	1,136	1,111	1,156	1,095
Transportation	608	598	1,054	1,150	715
Municipal Capital and Operating Restructuring Fund	-	-	-	200	-
Year-End Savings	-	-	-	-	(200)
Total Operating Expense	**51,324**	**52,337**	**54,638**	**54,027**	**51,580**

Capital Expense
($ Millions)

Table B5

Ministry	Actual 1993-94	Actual 1994-95	Actual 1995-96	Interim 1996-97	Plan 1997-98
Agriculture, Food and Rural Affairs	13	12	5	-	-
Attorney General	3	4	-	28	53
Citizenship, Culture and Recreation	28	42	29	9	4
Community and Social Services	77	72	14	28	20
Economic Development, Trade and Tourism	113	117	113	9	-
Education and Training	432	421	559	195	450
Environment and Energy	162	271	238	203	154
Municipal Capital and Operating Restructuring Fund	-	-	-	-	40
Finance	3	3	1	-	-
Health	309	249	168	182	242
Management Board Secretariat	169	260	272	119	46
Municipal Affairs and Housing	96	310	628	308	308
Native Affairs Secretariat	15	17	9	14	12
Natural Resources	95	54	47	33	25
Northern Development and Mines	208	240	163	181	193
Solicitor General and Correctional Services	5	2	2	6	13
Transportation	1,824	1,757	1,387	1,271	1,190
Total Capital Expense	**3,552**	**3,831**	**3,635**	**2,586**	**2,750**

Ten-Year Review of Selected Financial and Economic Statistics ($ Millions)

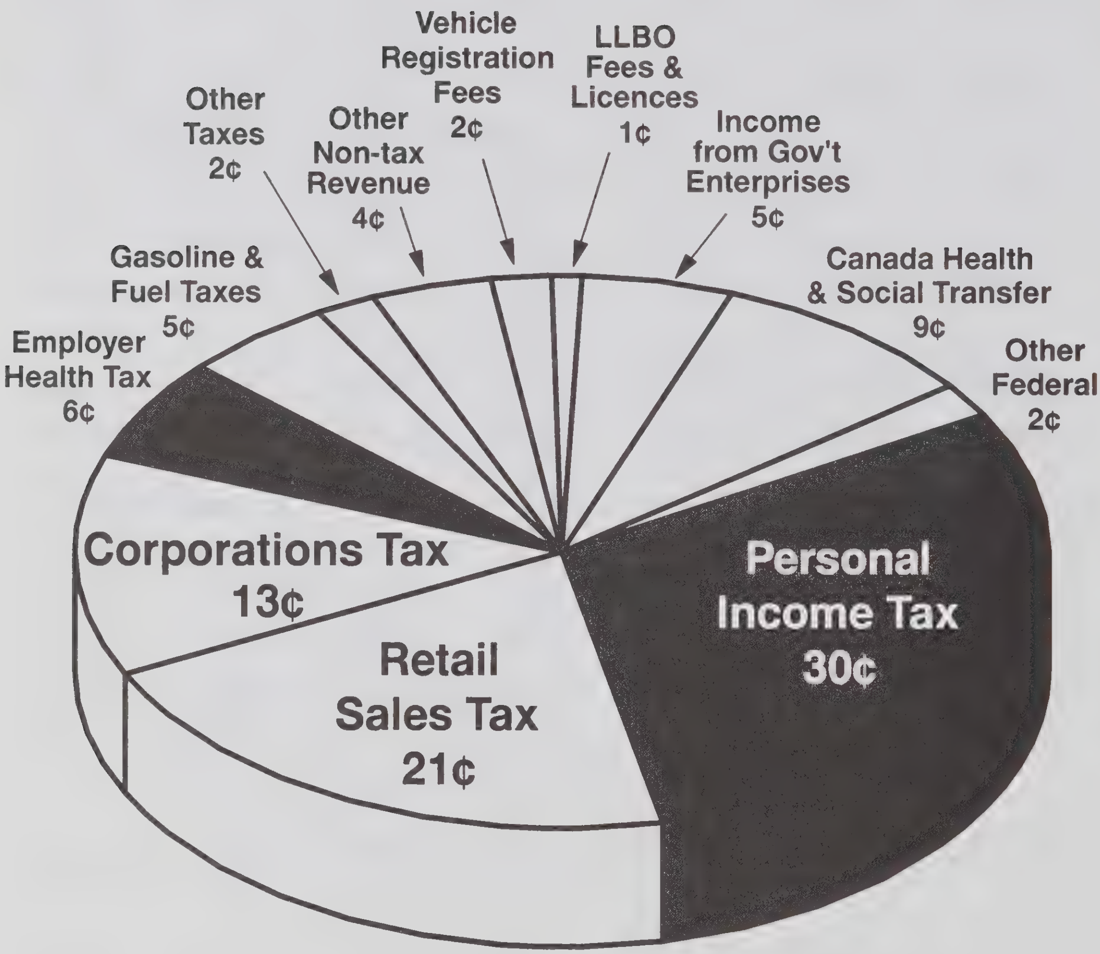
	Modified Cash Basis		
	1988-89	**1989-90**	**1990-91**
Financial Transactions			
Revenue	36,991	41,225	42,892
Expense			
Programs	31,435	33,926	38,924
Restructuring and Other Charges	-	-	-
Total Program Expense	31,435	33,926	38,924
Capital	3,268	3,392	3,221
Public Debt Interest	3,767	3,817	3,776
Total Expense	38,470	41,135	45,921
Reserve	-	-	-
Deficit/(Surplus)	**1,479**	**(90)**	**3,029**
Provincial Purpose Debt	**39,014**	**39,256**	**42,257**
Gross Domestic Product (GDP) at Market Prices	253,143	276,073	277,508
Personal Income	206,780	226,707	239,036
Population - July (000s)	9,884	10,151	10,341
Total Debt per Capita (dollars)	3,947	3,867	4,086
Personal Income per Capita (dollars)	20,921	22,333	23,115
Total Expense as a per cent of GDP	15.2	14.9	16.5
Public Debt Interest as a per cent of Revenue	10.2	9.3	8.8
Total Debt as a per cent of GDP	15.4	14.2	15.2
Cumulative Net Borrowing for Ontario Hydro			
U.S.	5,692	5,150	5,049
C.P.P.	2,097	2,748	2,748
Contingent Liability (mainly Ontario Hydro)	20,559	21,490	26,009

Note: 1995-96 financial results restated to reflect reclassification of GO Transit and Ontario Housing Corporation to government service organizations.

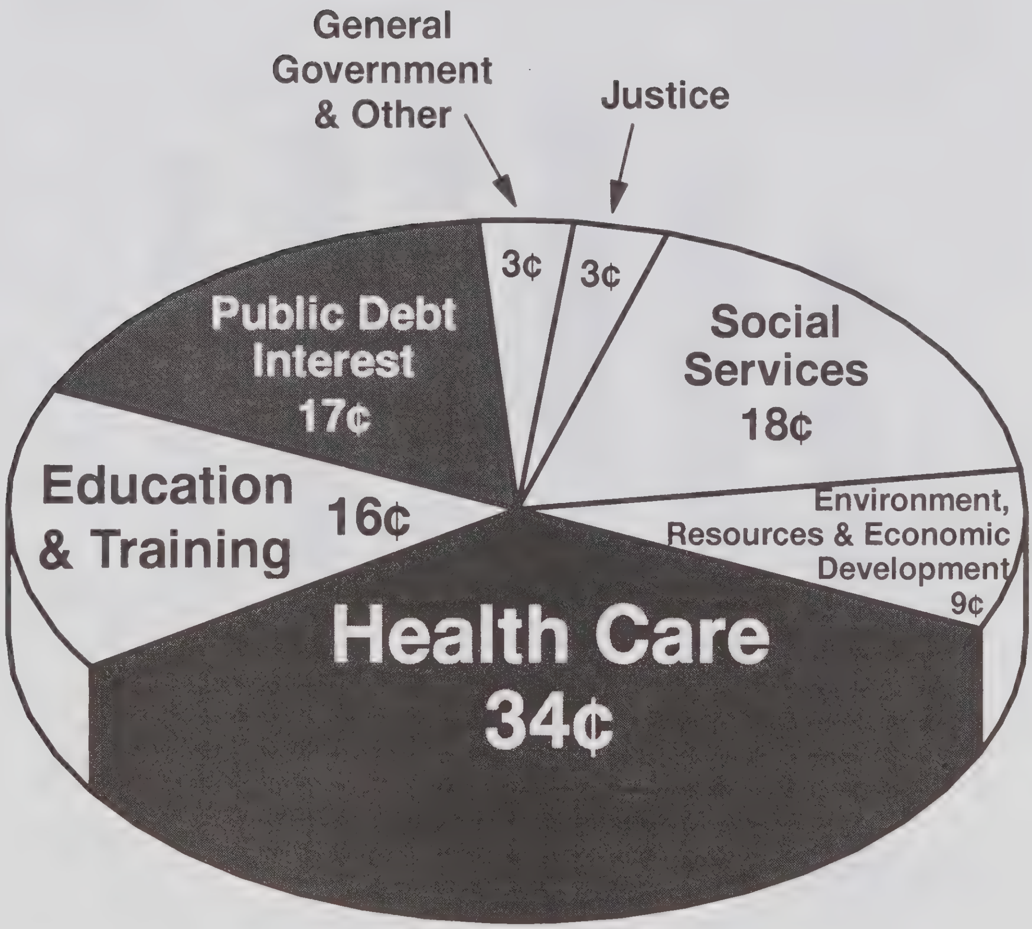
Table B6

		PSAAB Basis				
1991-92	1992-93	1993-94	1994-95	1995-96	Interim 1996-97	Plan 1997-98
40,753	41,807	43,674	46,039	49,473	49,143	48,400
43,613	45,350	44,195	44,505	44,811	43,012	41,780
-	-	-	-	1,352	2,306	610
43,613	45,350	44,195	44,505	46,163	45,318	42,390
3,874	3,592	3,552	3,831	3,635	2,586	2,750
4,196	5,293	7,129	7,832	8,475	8,709	9,190
51,683	54,235	54,876	56,168	58,273	56,613	54,330
-	-	-	-	-	-	650
10,930	**12,428**	**11,202**	**10,129**	**8,800**	**7,470**	**6,580**
53,083	**68,607**	**79,439**	**88,580**	**101,396**	**101,621**	**108,481**
278,463	282,803	288,569	301,082	313,319	323,636	339,873
245,763	250,928	253,217	258,503	267,431	271,479	280,047
10,471	10,646	10,815	10,937	11,097	11,252	11,416
5,070	6,444	7,345	8,099	9,137	9,031	9,503
23,471	23,570	23,413	23,636	24,099	24,127	24,531
18.6	19.2	19.0	18.7	18.6	17.5	16.0
10.3	12.7	16.3	17.0	17.1	17.7	19.0
19.1	24.3	27.5	29.4	32.4	31.4	31.9
4,185	3,969	1,789	1,087	1,060	392	n/a
2,748	2,748	2,748	2,748	2,748	2,748	n/a
30,369	34,657	34,008	33,782	31,632	31,509	n/a

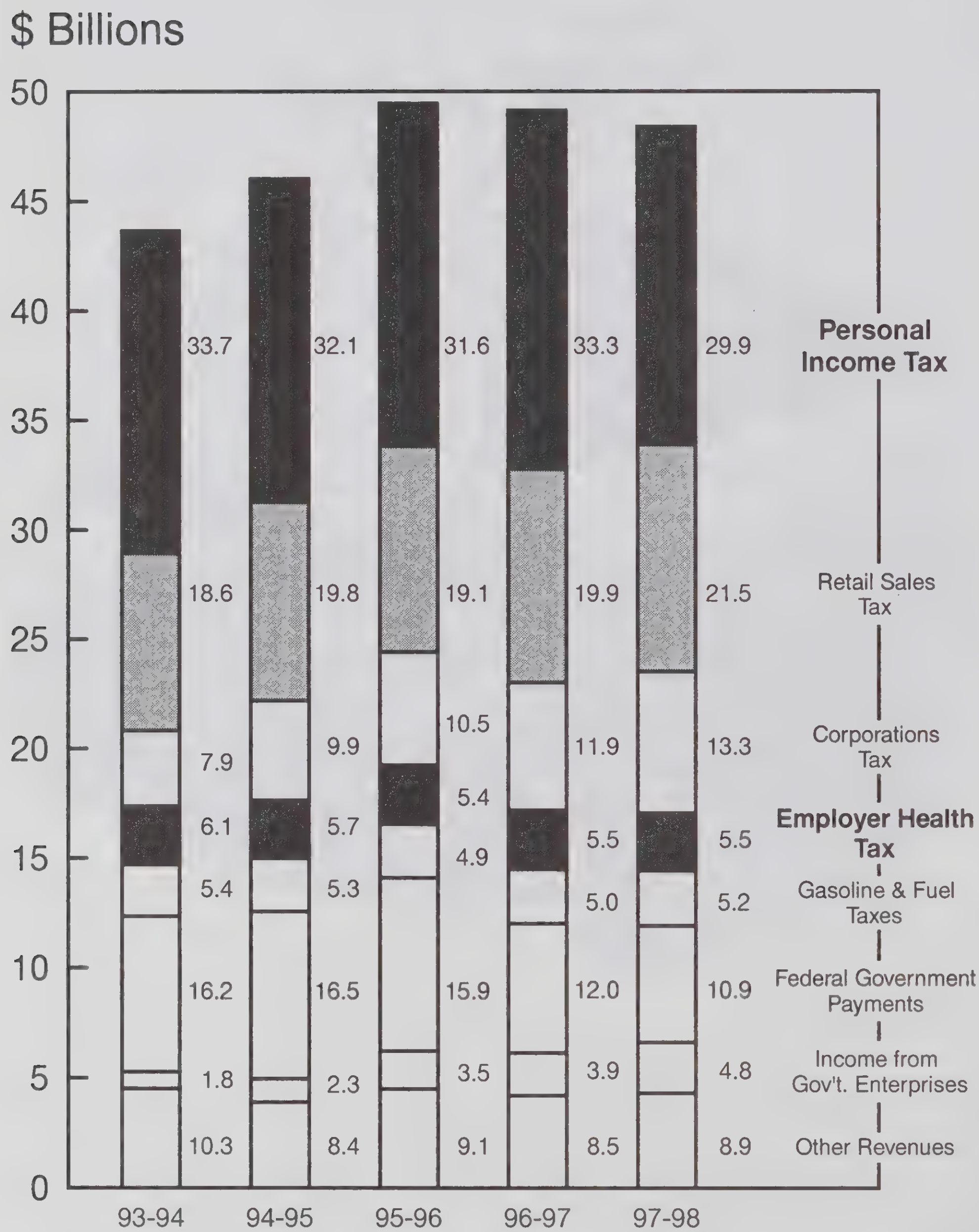
The Budget Dollar: Revenue 1997-98



The Budget Dollar: Total Expense 1997-98

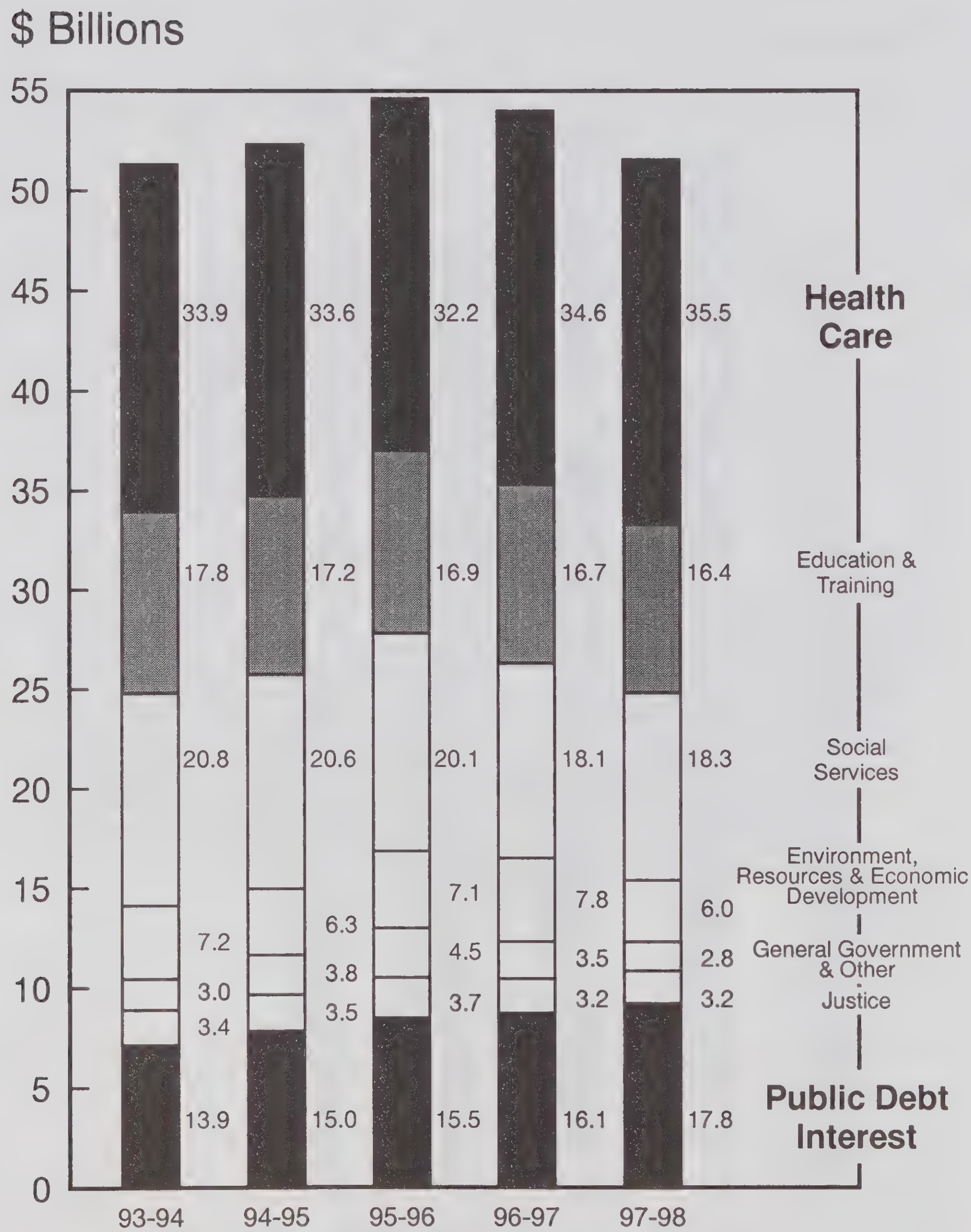


Revenue Sources by Category
Per Cent of Total
1993-94 to 1997-98

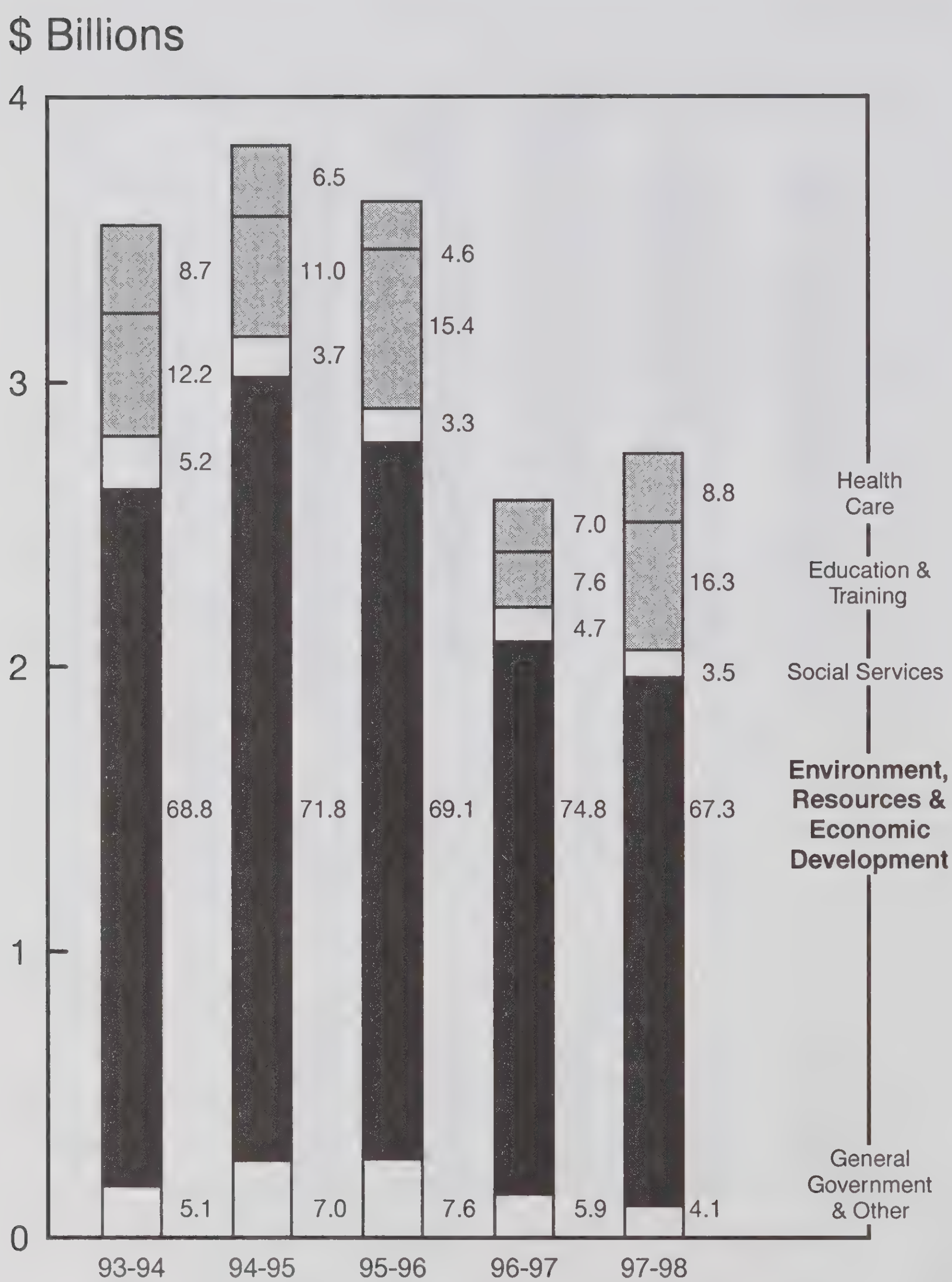


Operating Expense by Category

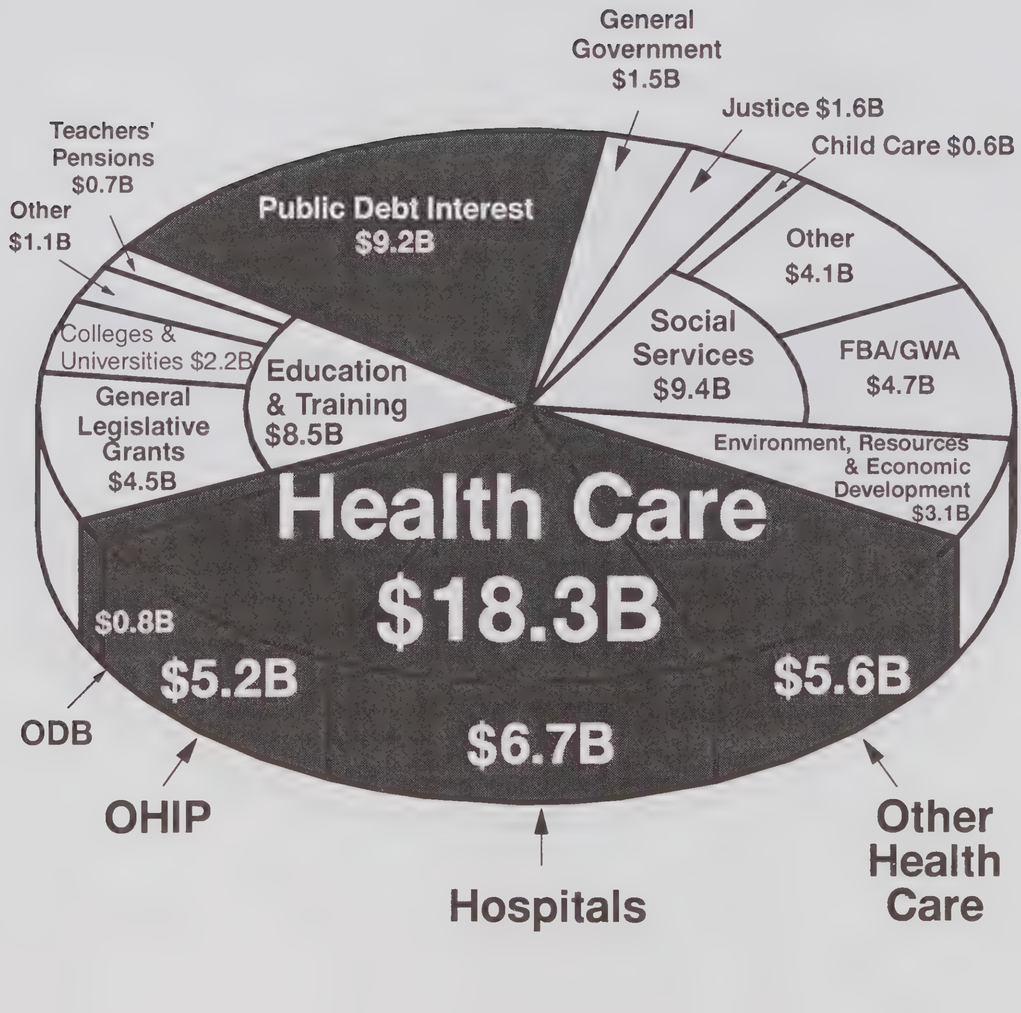
Per Cent of Total
1993-94 to 1997-98



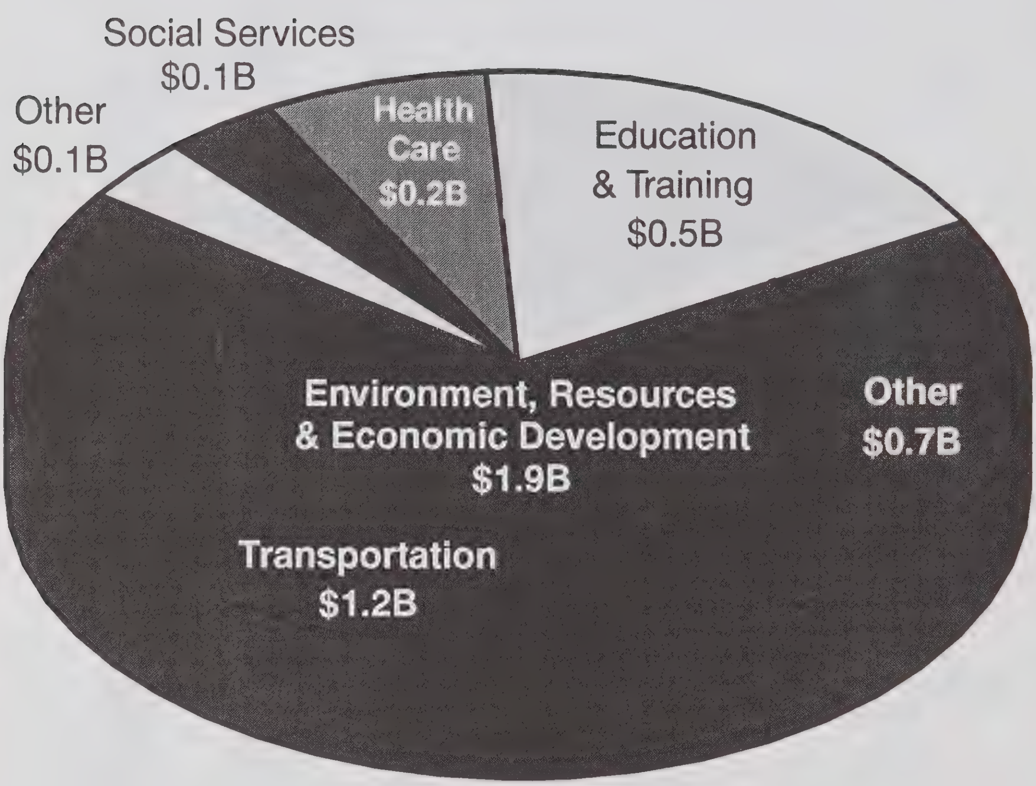
Capital Expense by Category
Per Cent of Total
1993-94 to 1997-98



1997-98 Operating Expense by Sector
($ Billions)



1997-98 Capital Expense by Sector
($ Billions)



Paper C

Details Of Revenue Measures

Details of Revenue Measures

Details of Revenue Measures

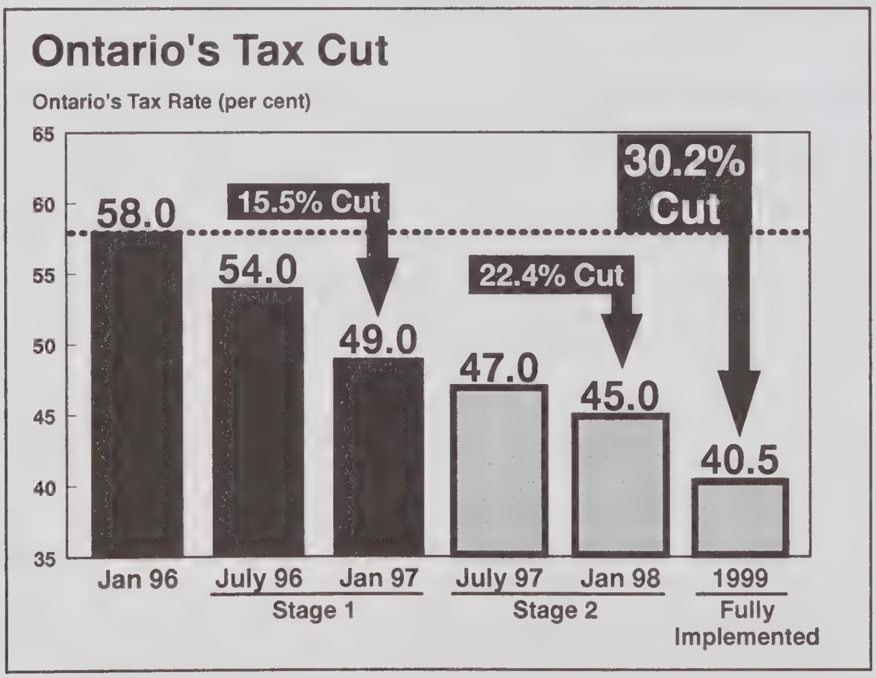
The following sections provide further information on the taxation measures outlined in the Budget. For a precise description of these measures, the reader is advised to consult the amending legislation.

Income Tax Act

Introduction

The 1996 Budget announced that Ontario personal income tax would be cut by an average of 30 per cent over three years. When the tax cut is fully implemented in 1999, all taxpayers will pay less Ontario income tax. Lower-income taxpayers will receive a tax cut of greater than 30 per cent, while higher-income taxpayers will see a tax cut of less than 30 per cent.

The personal income tax measures that took effect July 1, 1996 and January 1, 1997 implemented just over half of the promised tax cut. The 1997 Budget implements the next stage of the tax cut. By January 1, 1998, three-quarters of the 30 per cent tax rate cut will be in place.



Phases I and II of the 30 Per Cent Ontario Tax Rate Cut

- As announced in the 1996 Budget, the Ontario income tax rate for the 1996 taxation year was reduced to 56 per cent of Basic Federal Tax from 58 per cent of Basic Federal Tax.
  - From July 1, 1996 to December 31, 1996, tax was withheld at source at the rate of 54 per cent of Basic Federal Tax.
- Effective January 1, 1997, the Ontario income tax rate fell to 49 per cent of Basic Federal Tax.

Phases III and IV of the 30 Per Cent Ontario Tax Rate Cut

- For the 1997 taxation year, the Ontario personal income tax rate will be reduced to 48 per cent of Basic Federal Tax from 49 per cent of Basic Federal Tax.
  - From July 1, 1997 to December 31, 1997, tax will be withheld at source at the rate of 47 per cent of Basic Federal Tax.
- Effective January 1, 1998, the Ontario income tax rate will fall to 45 per cent of Basic Federal Tax.

Fair Share Health Care Levy

The Fair Share Health Care Levy (FSHCL) is designed to offset the cost of the employer health tax exemption and is paid only by individuals with incomes in excess of $50,980 per year. The income tax cut is reduced by the FSHCL, but even the highest income earners will experience a net tax cut. When the income tax cut and the FSHCL are fully implemented, the minimum tax cut will be 16.2 per cent.

- For the 1997 taxation year, the FSHCL will equal 20 per cent of Ontario income tax in excess of $4,555 plus 26 per cent of Ontario income tax in excess of $6,180.
  - From July 1, 1997 to December 31, 1997, the FSHCL will be calculated as 20 per cent of Ontario income tax in excess of $4,460 plus 28 per cent of Ontario income tax in excess of $6,000 for the purposes of tax withholdings at source.
- Effective January 1, 1998, the FSHCL will be calculated as 20 per cent of Ontario income tax in excess of $4,270 plus 30 per cent of Ontario income tax in excess of $5,635.

Enhanced Ontario Tax Reduction

Before Ontario's tax cut was initiated, it was expected that 900,000 Ontarians would have benefited from the Ontario Tax Reduction Program. Adjustments will be made to increase the number of people with low and moderate incomes benefiting from this program. When these adjustments are fully implemented in 1999, Ontario's enrichments will mean that an additional 30,000 families will no longer pay Ontario tax and a further 255,000 will have their Ontario tax reduced. In total, 1,185,000 Ontarians will benefit from this program, including 655,000 individuals who will have their Ontario income tax eliminated.

As the Ontario income tax rate falls, the gross benefits required to maintain the same number of beneficiaries in the Ontario Tax Reduction program also fall. Reductions in the Ontario income tax rate permit a reduction in the Ontario Tax Reduction benefit levels but an increase in the number of beneficiaries.

- For the 1997 taxation year, the basic reduction will be $171 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be $334.
  - From July 1, 1997 to December 31, 1997, the basic reduction will be $168 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be $333 for purposes of tax withholdings at source.
- Effective January 1, 1998, the basic reduction will be $161 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be $331.
- When the adjustments are fully implemented, the basic reduction will be $145 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be $325.

Child Care Tax Credit

Families with low incomes who incur child care expenses will be eligible for a refundable Ontario Child Care Tax Credit (CCTC).

- Effective for the 1997 taxation year, the CCTC will be 25 per cent of qualifying child care expenses, to a maximum of $400 for each child under age 7. The value of the credit will be reduced by 4 per cent of family net income in excess of $20,000.
  - The credit will be paid as part of the 1997 tax refund.
- The CCTC will be enriched in subsequent taxation years.

- Child care expenses that qualify for income tax purposes will be eligible for the Ontario CCTC. To be eligible, child care expenses must be incurred to enable parents to work or attend school full-time and must be supported with receipts.

Concordance with the Income Tax Act (Canada)

- The Income Tax Act will be amended to conform with changes to the Income Tax Act (Canada).

A Better Way to Collect Ontario Income Taxes

The Canada-Ontario Tax Collection Agreement has governed the collection of Ontario's personal income tax for the last 35 years. This agreement gives the federal government substantial control over how Ontario's income tax is applied and requires Ontario to get federal approval for changes that only affect Ontario tax. In exchange, Ontario makes no direct payment to the federal government for the service of collecting its tax.

While there have been some revisions over time, rules and provisions established in 1962 largely define the partnership. These rules are no longer working.

Changes that Ontario has proposed to its income tax that reflect reasonable and legitimate Provincial objectives have been rejected by the federal government. In a little more than a year, the federal government has refused to administer:

- a Fair Share Health Care Levy, like the one proposed in the *Common Sense Revolution*, on the income earned by high-income people. Instead, Ontario has had to resort to the more complicated surtax approach, with different results than the Government had originally proposed;

- a simple check off box on Page 4 of the income tax return that would easily allow taxpayers to donate tax refunds to reduce the debt of the Province; and

- a tax credit to ensure that taxpayers making donations of their current income or more to Crown foundations could get full tax relief in the year in which they made the donation.

These examples do not define an income tax system that reflects the needs of Ontario today and in the coming years. The current agreement impairs the Government of Ontario's ability to carry out the policy mandate

that it believes is in Ontarians' interests. In saying "no" to the policies noted above, the federal government is, in effect, defining what it thinks is in Ontario's interest.

The current Tax Collection Agreement also makes Ontario vulnerable to federal tax base changes which automatically affect Ontario revenues. The terms of the current agreement leave the Province no choice but to automatically adopt most federal income tax changes, including those that the Province does not support.

There are also costs to Ontario taxpayers from participating in the tax collection agreement. For example, the federal government collects over $1.5 billion in Ontario income tax before remitting any of it to Ontario. This delay results in higher interest costs to the Province, which must be paid for by Ontario taxpayers. The federal government also retains fines, interest and penalties collected on Ontario tax owing. Ontario taxpayers should not have to bear these costs, which we believe are well over $100 million per year.

Ontario will be examining alternatives to the current Tax Collection Agreement in the coming months. Expert advice will be sought from the private sector on how Ontario could collect its own tax efficiently and at lower cost. It is not clear to Ontario that the current federal approach to defining the tax base and to collecting the resulting tax is the most effective and least costly alternative. The Government believes that the private sector will have a number of useful suggestions for, and a role to play in, structuring and collecting an Ontario income tax.

All enquiries regarding personal income tax changes should be directed to:

Taxation Policy Branch
Ministry of Finance
5th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Small Business Development Corporations Act

Conclusion of Program

The Government will conclude the five year phase-out of the Small Business Development Corporations program, originally announced in 1993.

- Effective May 6, 1997, all remaining Small Business Development Corporations will be deregistered.
- To encourage the retention of invested capital in Ontario small businesses, Small Business Development Corporations in compliance with program requirements on May 5, 1997 will not be required to repay investment incentives.

All enquiries regarding the Small Business Development Corporations program changes should be directed to:
Tax Credits and Grants Branch
Ministry of Finance
P.O. Box 624
33 King Street West
Oshawa, Ontario
L1H 8H8
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Retail Sales Tax Act

Changes to the Retail Sales Tax Act will extend tax relief for farmers, provide fair tax treatment to purchasers of computer programs, and improve support for investment in research and development and manufacturing equipment.

Extending the Rebate on Building Materials for Farmers

- The temporary rebate for retail sales tax paid on building materials purchased by farmers, which was announced in the 1996 Budget, will be extended until March 31, 1998. The deadline for submitting claims will be extended to December 31, 1998.

- Persons engaged in the business of farming who contract out their building project can apply for a rebate of 3 per cent of the total contract price where the price includes the federal goods and services tax (GST), or 3.4 per cent of the contract price if GST is not included. Alternatively, they can claim a rebate on the actual retail sales tax paid if documentation is submitted proving the payment of retail sales tax by the contractor on the materials used.

Application of Retail Sales Tax to Computer Programs

- Effective for purchases after May 6, 1997, the application of Ontario's retail sales tax to computer programs will be clarified in legislation. The term "computer program" will be defined in the Retail Sales Tax Act. The policy of taxing pre-written computer programs and exempting custom computer programs remains unchanged.
- Retail sales tax at 8 per cent will apply to a computer program that is:
  - sold off-the-shelf and pre-packaged with an assumed or adhesion licence agreement;
  - transferred from a seller to a purchaser by disk, tape, chip, electronic or other means; or
  - originally produced for a specific purpose for a purchaser and subsequently resold.
- Retail sales tax will not apply to:
  - custom computer programs that are new and distinct computer programs designed and developed solely to meet the specific requirements of a particular person;
  - a custom computer program where a related corporation's resources are used to fulfil the customer's requirements; or
  - significant modifications to a computer program as prescribed by the Minister, to meet the requirements of a specific person, such as:
    - modifications after a sale, purchased for more than the price paid for the pre-written program in its unmodified form; or
    - modifications to a pre-written program as a condition of sale where the purchase price is more than double the price of the unmodified program.

Improving the Exemption for R&D Equipment

- Currently, qualifying equipment used by manufacturers for a combination of manufacturing and research and development activities is not exempt from retail sales tax even though equipment that is used primarily in manufacturing or exclusively in research and development does qualify. Effective for purchases after May 6, 1997, equipment used exclusively by manufacturers for a combination of these activities will be exempt from retail sales tax.
- In addition, effective for purchases after May 6, 1997, equipment used exclusively for research and investigation by non-profit medical research facilities will be exempt.

All enquiries regarding retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Finance
P.O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Land Transfer Tax Act

Land Transfer Tax Refund for First-Time New Home Buyers Extended

Ontario's successful temporary program to encourage first-time home buyers to purchase new homes is being extended.

- In accordance with the announcement made on March 31, 1997, the land transfer tax refund on purchases of newly constructed homes by first-time home buyers will be extended to March 31, 1998.
- The conditions for this refund include the following:
  - the agreement of purchase and sale must be entered into on or before March 31, 1998 (previously March 31, 1997);
  - the purchaser must occupy the newly constructed home as his or her principal residence by December 31, 1998 (previously December 31, 1997);

- the transfer must be registered and the application for the refund must be made by December 31, 1999 (previously December 31, 1998).

- The refund is available to first-time purchasers of newly constructed homes. The amount of the refund is the entire amount of tax paid or payable, up to a maximum of $1,725.

Elimination of the Higher Non-Resident Rate of Tax

The tax premium on foreign investments, first introduced in 1974, is no longer needed.

- Effective after May 6, 1997, the Land Transfer Tax Act will be amended to eliminate the higher 20 per cent rate of tax paid by non-residents of Canada on the purchase of farm or agricultural land, recreational land, woodlands and orchards.

- Non-residents of Canada will now pay land transfer tax on the purchase of all land at the same rate as residents.

Treatment of Tax Deferrals

- The deferred tax will be cancelled and any security provided by the non-resident will be returned where:
  - a deferral of the non-resident portion of the tax had been granted on or before May 6, 1997 and the deferral had not yet expired; or
  - an application to defer the tax was received on or before May 6, 1997.

- The deferred tax and interest will also be cancelled and any security provided by the non-resident will be returned where, on or before May 6, 1997:

  a) the non-resident has met the terms of the original deferral; or

  b) the conditions for the deferral could not be met due to circumstances beyond the control of the non-resident; or

  c) the non-resident has a long-standing presence in Ontario.

- Where none of the conditions described above in a), b) or c) apply, the non-resident will have the option of:

- paying a one-time lump sum of 50 per cent of the deferred tax and interest owing on the deferred tax; or
- having a maximum seven-year extension. At the end of the extension period, if the non-resident has not met the deferral conditions, the higher rate of tax and interest will be paid.

◆ A non-resident will be considered to have a long-standing presence in Ontario if:

- the non-resident owned Ontario assets other than the land in question at least equal in value to the value of the consideration paid for the land subject to the deferral in the 12 months prior to May 6, 1997; and
- carried on an active business in Ontario and employed at least five full-time employees in the province for at least one year prior to May 6, 1997.

All enquiries regarding land transfer tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Finance
P.O. Box 625
33 King St. West
Oshawa, Ontario
L1H 8H9
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Corporations Tax Act

Ontario Business-Research Institute (OBRI) Tax Credit

To foster world-class research institutions in Ontario and to promote partnerships between business and Ontario post-secondary educational institutions, the Province is introducing the Ontario Business-Research Institute Tax Credit. Ontario corporations will be able to claim a 20 per cent refundable tax credit for research and development (R&D) expenditures incurred in Ontario as part of an eligible research institute contract.

To assist small business, qualifying expenditures will be eligible for both the 20 per cent OBRI tax credit and the 10 per cent Ontario Innovation Tax Credit (OITC) for a combined tax credit of 30 per cent.

Eligible Research Institute Contract

- An eligible research institute contract will be an R&D contract between a corporation carrying on business through a permanent establishment in Ontario and an eligible research institute, where the R&D is related to a business the corporation carries on in Canada and:
  - the R&D is undertaken by the eligible research institute on the corporation's behalf; or
  - the corporation makes payments to be used by the eligible research institute for the R&D which the corporation is entitled to exploit.
- As part of the contract, the eligible research institute binds itself to undertake the R&D directly in Ontario.
- To qualify for this credit, corporations must obtain an advance ruling that the terms of the contract meet the criteria of an eligible research contract.

Eligible Research Institute

- For R&D that is undertaken on the corporation's behalf, eligible research institutes will be:
  - provincially (Ontario) assisted post-secondary institutions (such as a university or a college of applied arts and technology) and hospital research institutes; and
  - prescribed Ontario non-profit research organizations.
- Where the corporation makes payments to an eligible research institute to be used for R&D that the corporation is entitled to exploit, the institutes listed above will be eligible research institutes, provided they are also approved for purposes of subparagraph 37(1)(a)(ii) of the Income Tax Act (Canada).

Qualifying Expenditures

- Qualifying expenditures will be expenditures in respect of scientific research and experimental development activities as defined in the Income Tax Act (Canada), provided that the activities are carried on in Ontario by an eligible research institute under an eligible research institute contract.
- Total qualifying expenditures eligible for the tax credit will be limited to $20 million per year per associated group of corporations (prorated for taxation years straddling May 6, 1997).

Calculation of the OBRI Tax Credit and Interaction with the R&D Super Allowance and the OITC

- Corporations will receive a refundable tax credit equal to 20 per cent of qualifying expenditures in respect of an eligible research institute contract.
- When calculating a corporation's R&D Super Allowance, the OBRI tax credit claimed in a taxation year will reduce the expenditures eligible for the Super Allowance in the taxation year and the expenditure base for subsequent years.
- Qualifying expenditures for the OBRI tax credit will not be reduced by any OITC claimed in respect of the same expenditures.
- Qualifying expenditures for the OITC will not be reduced by OBRI tax credits claimed in respect of the same expenditures.
- Qualifying expenditures for the OBRI tax credit will not be reduced by federal R&D investment tax credits claimed under subsection 127(9) of the Income Tax Act (Canada) in respect of the same expenditures.
- For partnerships, the OBRI tax credit will be shared by partners in a manner similar to the R&D Super Allowance.

Restrictions on Eligibility

- Where a contract is entered into after May 6, 1997 and can reasonably be considered to be in respect of R&D expenditures covered in an agreement or contract entered into on or before May 6, 1997, the new contract will not be an eligible research contract.
- To target the OBRI tax credit, various rules will be implemented to:
  - prevent buy-backs of intellectual property rights arising from the results of the R&D;
  - impose restrictions on expenditures made in kind;
  - impose restrictions on contributions by the eligible research institute in respect of an R&D contract; and
  - impose restrictions on arrangements involving the transfer of employees from a corporation to an eligible research institute to carry out R&D under a particular eligible research institute contract.

Refunds

- The OBRI tax credit will be applied against outstanding Ontario tax liabilities and the excess will be refundable.

Effective Date

- The OBRI tax credit will be effective for qualifying expenditures incurred after May 6, 1997 in respect of eligible research institute contracts entered into after May 6, 1997.
- Qualifying expenditures incurred after May 6, 1997 in respect of long-term contracts entered into before May 7, 1997 will also qualify. To qualify as a long-term contract, the contract must continue to at least May 7, 1999.

Ontario New Technology Tax Incentive (ONTTI)

To encourage the development and transfer of new technology, Ontario will provide an immediate 100 per cent deduction of the eligible cost of qualifying intellectual property that is acquired by a corporation in a qualifying intellectual property transfer.

Qualifying Intellectual Property Transfers

- A qualifying intellectual property transfer will be an acquisition of knowledge in the form of know-how, techniques, processes or formulas from an unrelated person for the purpose of implementing an innovation or an invention in a business of the corporation that is carried on in Ontario.

Qualifying Intellectual Property

- Qualifying intellectual property will be a patent (either domestic or foreign), a licence, a permit, know-how, a commercial secret or other similar property constituting knowledge, but not a trademark, an industrial design, a copyright or other similar property constituting the expression of knowledge.
- The property must be used in a process of implementing an innovation or invention where the efforts to implement that innovation or invention are carried on exclusively in Ontario.
- Qualifying intellectual property must be used for at least the entire period of time covering the process of implementing the innovation or invention.
- The property must be used within a reasonable period of time after its acquisition in the process of implementing the innovation or invention.

Eligible Costs

- Eligible costs will be the capital costs of the qualifying intellectual property.
- Where a corporation allocates part of its taxable income to another jurisdiction, the eligible costs will be grossed-up by the Ontario allocation factor to ensure that the full value of the deduction is realized.
- Total eligible costs will be limited to $20 million per year per associated group of corporations before the gross-up (prorated for taxation years straddling May 6, 1997).

ONTTI Deduction

- Eligible costs, including the gross-up, will be deductible from income tax in the year the property is acquired.
- Special recapture rules will apply when qualifying intellectual property is disposed of or not used as required above.

Effective Date

- The ONTTI will apply to contracts entered into after May 6, 1997 in respect of eligible costs incurred after August 31, 1997.

Capital Tax Deduction for R&D Expenditures and ONTTI Costs

Ontario will reduce the capital tax burden of corporations that have incurred R&D and ONTTI expenditures but have not claimed them for income tax purposes.

- Currently, a corporation's Ontario paid-up capital is reduced by the corporation's R&D expenditures only where they are deducted for income tax purposes.
- Effective for taxation years ending after May 6, 1997, the capital tax deduction for R&D expenditures under the Corporations Tax Act will be permitted in the year in which these expenditures are deductible for income tax purposes.
- Additionally, a capital tax deduction for costs under the ONTTI will be permitted in the year in which these costs are deductible for income tax purposes.

Eliminating Barriers to Technology Transfers: The Add-Back Rule

Ontario will remove barriers to technology transfers that have existed for decades.

- The Corporations Tax Act will be amended to correspond to the federal treatment of royalty payments made to non-residents in respect of:
  - computer software; and
  - patents and information concerning industrial, commercial or scientific experience (know-how), including designs, models, plans, secret formulas and processes.
- As a result, Ontario's 5/15.5 add-back rule will not apply in respect of these royalty payments to related non-residents where the Income Tax Act (Canada) or a tax treaty exempts the payment from federal withholding taxes.
- This change will be effective for royalties incurred after December 31, 1997.

Ontario Computer Animation and Special Effects Tax Credit

A new 15 per cent refundable tax credit will be provided to support Ontario computer animation and special effects activities.

- Effective July 1, 1997, Ontario will provide a tax credit to corporations for Ontario labour expenditures incurred in respect of computer animation and special effects activities carried out in Ontario for use in film or television productions.
- The Ontario Computer Animation and Special Effects (OCASE) Tax Credit will be a refundable tax credit earned at a rate of 15 per cent of qualifying labour expenditures.

Eligible Computer Animation and Special Effects Activities

- Eligible computer animation and special effects activities will be prescribed activities carried out in Ontario in respect of digital animation and digital visual effects for use in film or television productions.
- Film and television productions must be for commercial exploitation and not in genres that are "excluded productions" for purposes of the Ontario Film and Television Tax Credit (OFTTC).

- If the activities are in respect of a television production, the production must be suitable for initial broadcast in a time slot that is a minimum of 30 minutes.

Qualifying Corporations

- A qualifying corporation will be a Canadian corporation that:
  - is performing eligible computer animation and special effects activities either for a film or television production that it is producing or under contract with a producer of a film or television production;
  - has a permanent establishment in Ontario; and
  - is not exempt from taxation under the Corporations Tax Act.

Qualifying Labour Expenditures

- Qualifying labour expenditures for the OCASE tax credit will be equal to the lesser of:
  - Ontario labour expenditures for eligible computer animation and special effects activities; and
  - 48 per cent of the prescribed cost of eligible computer animation and special effects activities.
- Ontario labour expenditures will be expenditures incurred after June 30, 1997 in respect of payments made to persons in Ontario who are performing eligible computer animation and special effects activities.

Tax Credit Calculation

- The OCASE tax credit will be calculated at a rate of 15 per cent of qualifying labour expenditures.
- The OCASE tax credit will be subject to an annual maximum of $500,000 per associated group of corporations (prorated for taxation years straddling June 30, 1997).
- The OCASE tax credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

Interaction of the OCASE Tax Credit and the OFTTC

- A corporation that is a "qualifying production company" for the OFTTC and a "qualifying corporation" for the OCASE tax credit will be eligible for the OFTTC and the OCASE tax credit for those expenditures that qualify for both, without reduction of either tax credit.

Certification

- A certificate of eligibility must be obtained from the Ontario Film Development Corporation.
- The certificate of eligibility must be filed with the qualifying corporation's tax return under the Corporations Tax Act when the OCASE tax credit is claimed.

Enhancement to the Ontario Film and Television Tax Credit

To maintain Ontario's competitive advantage in the film and television production industry and to promote employment in this sector of Ontario's economy, the Ontario Film and Television Tax Credit (OFTTC) announced in the 1996 Ontario Budget is being enhanced in two respects:

- for qualifying labour expenditures incurred after May 6, 1997, the OFTTC rate will be increased from 15 per cent to 20 per cent; and
- the annual OFTTC limit for corporations or associated groups of corporations will be increased from $2 million to $3 million for productions commencing after 1996 with qualifying labour expenditures incurred after May 6, 1997; this increase will be prorated for 1997.

The OFTTC is a refundable tax credit available to qualifying production companies for producing eligible film and television productions in Ontario. The credit is calculated on the lesser of Ontario labour expenditures and 48 per cent of the eligible cost of the production.

First-time producers will continue to be eligible for an enhanced rate of 30 per cent on the first $240,000 of qualifying labour expenditures.

Ontario Book Publishing Tax Credit

To support first-time Canadian authors, Ontario will provide a refundable tax credit to eligible Ontario book publishing companies for qualifying expenditures in respect of eligible literary works by first-time Canadian authors. The tax credit will be at a rate of 30 per cent on pre-production and promotional costs and 15 per cent on production costs.

Eligible Ontario Book Publishing Companies

- An eligible Ontario book publishing company will be a Canadian-controlled corporation with a permanent establishment in Ontario, provided that:

- its principal business is book publishing carried on primarily in Ontario;
- it is not controlled directly or indirectly by the first-time Canadian author or any person related to the author; and
- it is not exempt from tax under the Corporations Tax Act.

Eligible Literary Works

◆ An eligible literary work will be a non-periodical publication that is categorized as fiction, poetry, creative nonfiction, biography, trade nonfiction or a children's book and that is:

- authored material of at least 48 printed pages in length (except in the case of children's books);
- bound as a paperback, trade paperback or hardback;
- not a self-published title; and
- not a publication that is prescribed as ineligible.

First-Time Canadian Authors

◆ A first-time Canadian author will be a Canadian citizen or landed immigrant, ordinarily residing in Canada with no previously published titles in the particular category of eligible literary work that is being published.

Qualifying Expenditures

◆ Qualifying expenditures will be:

- non-refundable author advances and salaries and other pre-production costs for activities carried out principally in Ontario, including salaries for editing, design and project management, freelance costs for editing, design and research, artwork, development of prototype, and set-up and typesetting;
- 50 per cent of production costs for activities carried out principally in Ontario, including printing, binding and assembly; and
- promotional costs incurred within 12 months of the publication date, including advertising, promotional tours of the author and sales salaries but not meals and entertainment.

Tax Credit

- The Ontario Book Publishing Tax Credit will be calculated at a rate of 30 per cent of qualifying expenditures incurred in a taxation year.
- The maximum tax credit available to an eligible Ontario book publishing company will be limited to $10,000 per literary work.
- The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

Effective Date

- The Ontario Book Publishing Tax Credit will be effective for publishing contracts entered into after May 6, 1997.

Improvements to the Co-operative Education Tax Credit

To foster greater opportunities for co-operation between businesses and post-secondary educational institutions in providing valuable job experience for Ontario students enrolled in leading-edge technology programs, Ontario will enhance the Ontario Co-operative Education Tax Credit (CETC) introduced in the 1996 Budget.

The current definition of a qualifying co-operative education program under the CETC is based on the Canadian Association for Co-operative Education's definition of a co-operative education program. While there are many leading-edge technology programs which currently meet this definition, there are various programs with alternative study and work experience arrangements that do not. A new component will be added to the definition of co-operative education program to target leading-edge technology programs that do not currently qualify for the CETC.

New Qualifying Work Placements

- New qualifying work placements for a leading-edge technology program will be placements that are recognized by an eligible educational institution as part of a qualifying leading-edge technology program.
- The eligible educational institution will certify that the education program meets the definition of a qualifying program in leading-edge technology and that the work performed by the student during the work placement is in a related field.
- The eligible educational institution will issue a voucher to a student enrolled in a leading-edge technology program. The business will use this voucher to support their CETC claims for these placements.

Eligible Educational Institutions

- An eligible educational institution will be a provincially (Ontario) assisted university, a college of applied arts and technology, the Ontario College of Art and Design, the Michener Institute for Applied Health Sciences and other post-secondary institutions prescribed by the Minister.

Tax Credit

- The credit will continue to be refundable and equal to 10 per cent of the salaries, wages and benefits paid to the student during the work placement, with a maximum credit of $1,000 per placement.
- The CETC in respect of new qualifying work placements will be available to incorporated and unincorporated businesses.

Qualifying Leading-Edge Technology Programs

- Qualifying leading-edge technology programs could include approved programs of study in fields such as the following:
  - Computer science, e.g., information systems, software engineering and digital animation;
  - Information and telecommunications technology;
  - Natural and medical sciences, e.g., biochemistry, microbiology, metallurgy and material science;
  - Engineering, e.g., environmental, chemical and aerospace.
- To target the CETC to leading-edge technology programs, Ontario will consult with stakeholders in industry and post-secondary educational institutions prior to finalizing the details of the enhancement.

Effective Date

- The enhanced credit for leading-edge technology programs will be available for qualifying work placements which commence after December 31, 1997.

Ontario Graduate Transitions Tax Credit

To encourage business to provide work opportunities to unemployed graduates, Ontario will provide a 10 per cent refundable tax credit to Ontario businesses for qualifying expenditures incurred in hiring Ontario unemployed post-secondary graduates.

Qualifying Expenditures

- Qualifying expenditures will be salaries, wages and benefits paid by the employer to the post-secondary graduate in respect of qualifying employment, as reported on the employee's T-4 slip.

Qualifying Employers

- Qualifying employers will be Ontario corporations and unincorporated businesses.
- An Ontario corporation is a corporation that has a permanent establishment in Ontario, other than a corporation exempt from tax under the Corporations Tax Act. Ontario unincorporated businesses are businesses with permanent establishments in Ontario, other than unincorporated businesses carried on by individuals exempt from tax under the Income Tax Act (Ontario).
- For partnerships, the Ontario Graduate Transitions Tax Credit will be shared by partners in a manner similar to the Ontario Co-operative Education Tax Credit.

Qualifying Employment

- Qualifying employment will be the hiring of a qualifying Ontario post-secondary graduate to work at a permanent establishment in Ontario for a period of at least six months.

Qualifying Post-Secondary Graduates

- A qualifying post-secondary graduate will be an individual unrelated to the qualifying employer who, within the past three years:
  - has graduated from a recognized program of study; and
  - has been unemployed for at least 16 weeks of the last 32 weeks immediately preceding the first day of qualifying employment.
- A recognized program of study includes a program in a post-secondary institution that is funded by the Ontario Government or in a private vocational school as prescribed in the Private Vocational Schools Act (Ontario), that results in one of the following post-secondary credentials:
  - a trades certificate or diploma from a vocational school or apprenticeship training;
  - a non-university certificate or diploma from a community college or school of nursing;
  - a university certificate below a bachelor degree;

- a bachelor degree; or
- a university certificate or degree above a bachelor degree.

◆ A certificate includes a certificate for a recognized program of academic study or trades training, and for a professional or vocational program. It does not include certificates of completion issued for individual courses or for studies in continuing education or in areas related to personal interest or leisure activities.

Tax Credit

◆ Qualifying employers will receive a refundable tax credit equal to 10 per cent of qualifying expenditures paid to qualifying post-secondary graduates in their first 12-month period of employment.

◆ The maximum credit for each new hire cannot exceed $4,000.

◆ The credit cannot be claimed until the employee has worked for the minimum six-month period.

◆ The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

Effective Date

◆ The credit will apply to new hires commencing after May 6, 1997.

Capital Tax Harmonization for Financial Institutions

In order to simplify and modernize Ontario's capital tax system, the Corporations Tax Act will be amended to follow more closely the federal large corporations tax as it applies to financial institutions.

Definition of a Financial Institution

◆ A financial institution for purposes of the Ontario capital tax will be a corporation that at any time in the year is:

- a bank or credit union (excluding prescribed central credit unions and leagues);
- authorized under the laws of Canada or a province to carry on the business of offering its services as a trustee to the public;
- authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real estate or investing in mortgages on real estate;

- registered or licensed under the laws of a province to trade in securities, in the capacity of agent or principal, without any restriction as to the types or kinds of securities in which it may trade;
- a mortgage investment corporation, as defined in the Income Tax Act (Canada); or
- a prescribed corporation.

Calculation of Paid-up Capital

◆ The taxable paid-up capital of a financial institution will be:

- its long-term subordinated debt;
- its capital stock (or members' contributions if it is a corporation without share capital);
- its retained earnings;
- its contributed and other surplus;
- its reserves to the extent that they are not deducted for income tax purposes, but excluding depreciation or depletion reserves; and
- one-third of the total of all amounts, each of which is the carrying value at the end of the year of an asset of the financial institution that is tangible property used in Ontario.

Less:

- $2 million, prorated among related financial institutions with permanent establishments in Ontario.

Investment Allowance

◆ A financial institution will be entitled to an allowance to reduce its capital tax payable in a taxation year where it has made an investment in shares or long-term subordinated debt of a related financial institution which is also taxable in Ontario.

- The amount of the allowance claimed by the investor will recognize the proportion of business done in Ontario by the related financial institution.

Tax Rate

◆ The rate of tax payable by a financial institution other than a credit union on taxable paid-up capital allocated to Ontario will be:

  - 0.6 per cent on the first $200 million; and
  - 0.9 per cent on any amount in excess of $200 million.

- The threshold amount of $200 million of taxable paid-up capital which is subject to the lower rate of capital tax will be prorated among related financial institutions with permanent establishments in Ontario.

Effective Date

- Credit unions will be subject to these changes after December 31, 1997.
- For other financial institutions that are members of a related group of financial institutions with aggregate taxable paid-up capital in excess of $10 million, these changes will be effective after May 6, 1997, prorated for taxation years straddling May 6, 1997.
- For the remaining financial institutions, these changes will apply to taxation years beginning after May 6, 1997.

Credit Unions

- To provide transitional relief, the capital tax on credit unions will be capped at 0.6 per cent and will be phased-in at the following rates:
  - 0.05 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1997 and before January 1, 1999 (prorated for taxation years that include these dates);
  - 0.1 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1998 and before January 1, 2000 (prorated for taxation years that include these dates);
  - 0.2 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1999 and before January 1, 2001 (prorated for taxation years that include these dates);
  - 0.4 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 2000 and before January 1, 2002 (prorated for taxation years that include these dates); and
  - 0.6 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 2001 (prorated for taxation years that include this date).

Parallelling the Federal Temporary Capital Tax Surcharge on Large Deposit-Taking Financial Institutions

Ontario will harmonize with the federal measure to extend the temporary surcharge on the capital tax of large deposit-taking financial institutions from November 1, 1997 to October 31, 1998.

- The temporary surcharge will also be extended effective after May 6, 1997 to all large deposit-taking financial institutions.
  - For taxation years that straddle May 6, 1997, the temporary surcharge will be prorated based on the number of days in the taxation year after May 6, 1997.
- Effective after May 6, 1997, the definition of taxable paid-up capital for the purposes of the temporary surcharge will reflect the new tax base resulting from capital tax harmonization with the federal large corporations tax.
- The temporary surcharge is equal to 10 per cent of the capital tax levied on a large deposit-taking financial institution's taxable capital over $400 million.
  - The $400 million capital deduction will be prorated among related financial institutions with permanent establishments in Ontario.
- A large deposit-taking financial institution may reduce its liability for the temporary surcharge by the Small Business Investment Tax Credit.

Improving the Small Business Investment Tax Credit for Financial Institutions

Effective after May 6, 1997, the Small Business Investment Tax Credit, which was announced in the 1996 Budget, will be amended to help target the incentive to more small businesses, to expand eligible investments to include investments in Community Small Business Investment Funds and to extend the credit to all large deposit-taking financial institutions and to credit unions.

The Small Business Investment Tax Credit is earned by deposit-taking financial institutions for eligible investments made to qualifying small businesses. The tax credit reduces a financial institution's Ontario capital tax liability.

Extension of the Tax Credit to Qualifying Financial Institutions

- Effective after May 6, 1997, qualifying financial institutions will be able to reduce their capital tax liability by making investments that qualify for the Small Business Investment Tax Credit.
- A qualifying financial institution for the purposes of the tax credit will be:
  - a deposit-taking financial institution that is a member of a related group of financial institutions that has aggregate taxable paid-up capital in excess of $400 million; and
  - a credit union.

Enriched Credit for Small Patient Capital Investments

- To target the credit to smaller growing businesses, the tax credit will be enriched to 75 per cent for small patient capital investments not exceeding $50,000 in qualifying small businesses with no more than $500,000 in total assets and gross revenue (including assets and revenue of associated businesses).
- The enriched tax credit will be reduced from 75 per cent to 20 per cent where the amount of the investment is between $50,000 and $100,000 or where the total assets or gross revenue of the qualifying small business (and associated businesses) are between $500,000 and $750,000.
  - Where the amount of the investment is above $50,000 and the total assets or gross revenue of the qualifying small business are greater than $500,000, both reductions will apply.
- A small patient capital investment will be an investment made after May 6, 1997 in shares or long-term subordinated debt issued by a qualifying small business that qualifies as an eligible investment under the current tax credit rules.
- The enriched tax credit rate will only be available if the total of the qualifying financial institution's eligible investments in the small business does not exceed $100,000.

New Credit for Small Loans Made at Interest Rates Below Bank Prime

- A tax credit of 4 per cent will also be available for small loans not exceeding $50,000 made to qualifying small businesses with no more than $500,000 in total assets and gross revenue (including assets and revenue of associated businesses), provided that the loan is made after May 6, 1997 at a rate of interest below bank prime.

- The tax credit will be equal to 4 per cent of the amount of qualifying loans made by a qualifying financial institution that are outstanding in the year, as adjusted to reflect the period during the year that the amount was outstanding.

- The maximum amount of tax credits that a qualifying financial institution may claim in a taxation year in respect of below-prime small loans will be 75 per cent of the qualifying financial institution's capital tax that is eligible to be earned back in respect of the taxation year.

- The tax credit for below-prime small loans will not be available for loans made to persons carrying on prescribed businesses, including professions such as law, dentistry, accounting and medicine.

New Credit for Investments in Community Small Business Investment Funds

- A qualifying financial institution will be able to claim a 20 per cent tax credit in respect of its investment in a Community Small Business Investment Fund.
  - The credit is to be claimed at the time and to the extent that the Community Small Business Investment Fund reinvests the qualifying financial institution's investment in small businesses.

- As a temporary incentive, investments made after May 6, 1997 and before January 1, 1999 in Community Small Business Investment Funds will qualify for an immediate 20 per cent tax credit.

- As a result, a qualifying financial institution may claim a total tax credit of 40 per cent in respect of an investment in a Community Small Business Investment Fund.

- Further details regarding Community Small Business Investment Funds are contained in Appendix C1.

Amount of Capital Tax Eligible to be Earned Back

- Effective May 6, 1997, the total capital tax that a qualifying financial institution other than a credit union may earn back in respect of a taxation year will be the total of:
  - its temporary capital tax surcharge in respect of that year; and
  - 20 per cent of its capital tax liability (excluding the temporary surcharge) on its taxable capital over $400 million in respect of that year.
    - The $400 million taxable capital threshold will be prorated among related financial institutions with permanent establishments in Ontario.

– For the purposes of the earn back, a qualifying financial institution's capital tax liability for a taxation year that straddles May 6, 1997 will be prorated on the basis of the number of days in the year after May 6, 1997.

- For a credit union, the amount of capital tax eligible to be earned back in respect of a taxation year will be its total capital tax liability for that taxation year.
- The credit earned by a qualifying financial institution may be shared with a member of its related group of financial institutions.

Earn-Back Period

- To claim the tax credit after May 6, 1997 in respect its capital tax liability for a taxation year, a qualifying financial institution must make eligible investments before the end of the second calendar year following the calendar year in which the taxation year ends.
- Any liability for the temporary capital tax surcharge for a period before May 7, 1997 may be earned back under the new tax credit rules.

Consultations

- Ontario will consult with small business and financial institutions regarding the implementation of the Small Business Investment Tax Credit for Financial Institutions.

Amendments to the Investment Allowance

- The Corporations Tax Act will be amended to exclude from the investment allowance claimed by a corporation in computing capital tax any loans or advances to or bonds, debentures or other securities of a government, Crown corporation or municipal or school corporation. This corresponds to the treatment of these investments under the federal large corporations tax.
- This measure will be effective for taxation years ending after December 31, 1997.

Amendments Relating to Federal Measures

- Changes will be made to the Corporations Tax Act to harmonize with federal income tax changes and effective dates announced in the 1997 federal budget. These include:

- extending the rules for mining reclamation trust funds to include similar trust funds established for waste disposal sites and quarries for the extraction of aggregates; and
- broadening the investor base for renewable energy to include test wind turbines.

◆ The Corporations Tax Act will also be amended so that a corporation's losses for Ontario tax purposes will not be affected for corporations that elect to participate in the federal aviation fuel excise tax rebate contained in the 1997 federal budget.

◆ Ontario will continue to permit the 100 per cent net income limit to apply to gifts from Ontario corporations to the Crown in right of Ontario and Ontario Crown Agencies, including Crown foundations.

All enquiries regarding corporations tax changes should be directed to:

Corporations Tax Branch
Ministry of Finance
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H7

English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Other Changes

Equalizing Passenger Vehicle Registration Fees

◆ Effective for registration renewals and new registrations on or after September 1, 1997, registration fees for passenger cars, commercial motor vehicles weighing 3,000 kilograms or less used for personal purposes, and motorized mobile homes will be equalized at $74 across Southern Ontario. Fees for northern Ontario will be set at $37.

- Fees in the Greater Toronto Area will decrease from $90 to $74.
- Fees in Southern Ontario will increase from $66 to $74.
- Fees in northern Ontario will increase from $0 to $37.

- Registration fees for motorcycles will also be equalized across Southern Ontario at $42.
  - Fees in the Greater Toronto Area will decrease from $48 to $42.
  - Fees in Southern Ontario will increase from $36 to $42.
  - Fees in Northern Ontario will increase from $0 to $21.
- Registration fees for mopeds remain at $12.
- For those individuals who choose to renew for a two-year period, effective immediately and until September 1, 1997, vehicles being registered in Ontario will be renewed under the current fee structure for 12 months. Thereafter, renewals will be made according to the new rate structure.
- Registration fees for commercial motor vehicles weighing 3,000 kilograms or less used for commercial purposes and registered in the Greater Toronto Area will be reduced to $74 from $90. In the rest of Ontario these fees will be increased from $72 to $74.
  - Registration fees for heavy commercial vehicles, heavy commercial farm trucks, and buses remain unchanged.

All enquiries regarding these changes should be directed to:

Licensing and Control Branch
Ministry of Transportation
Main Floor, East Building
2680 Keele Street
Downsview, Ontario
M3M 3E6
English: 1-416-235-2999
French: 1-416-235-2999
Teletypewriter (TTY): 1-800-263-7776

Making the Tax System Fairer

Defeating the Underground Economy

- Ontario will implement a number of initiatives targeted at the underground economy and tax evasion, including the following:
  - Negotiations are continuing with Revenue Canada to collect on the Province's behalf the retail sales tax payable on taxable

items brought into the province by residents returning from outside Canada. In addition, discussions will begin with Revenue Canada to obtain information on commercial imports for retail sales tax purposes and with Canada Post to allow for the collection of retail sales tax on taxable items mailed to Ontario residents.

- Retailers convicted of offences under the Retail Sales Tax Act will have their on-line lottery ticket privileges temporarily suspended.
- Staff resources dedicated to the prosecution of strict liability offences under the Retail Sales Tax Act will be increased.
- Overall audit capacity, particularly for commodity taxes will be strengthened further. Electronic systems will be created and enhanced to:
  - allow for the more efficient use of collection, audit and investigative resources;
  - improve information exchange and matching capabilities between various federal, provincial and municipal data bases; and
  - allow for the electronic filing of returns.
- Ontario will participate in Joint Force Investigations with the RCMP, municipal police forces and Revenue Canada to investigate and prosecute tax evasion schemes involving alcohol and tobacco products.
- Ontario will initiate discussions with the other provinces administering their own retail sales taxes to determine methods of collecting retail sales tax on goods ordered in one jurisdiction and delivered to another.
- Ontario will consult with the propane industry on opportunities to streamline propane taxation.

Improving the Objections and Appeals Process

- The objections and appeals process will be improved. Changes to Ministry of Finance staffing allocation, procedures and legislation will be implemented to effect a more timely resolution of objections and appeals.
- Ministry of Finance staff and taxpayers will be encouraged to place more emphasis on the resolution of issues at the pre-objection stage.

- Taxpayers will be required to:
  - disclose in their notices of objection all issues in dispute;
  - provide the facts and reasons being relied upon in respect of each issue; and
  - respond to requests for facts and reasons relating to the initial notice of objection within 60 days.
- Taxpayers will not be able to add new issues to the objection, although they will be able to file another objection to a subsequent reassessment for the taxation year. Similarly, appeals may be filed only in respect of issues specified in the original Notice of Objection.
- The process will also be simplified by no longer requiring objections to be filed in duplicate and by registered mail.
- Other changes to improve administration and fairness and to standardize procedures across statutes will be implemented where appropriate.
- Ontario will review the new federal Appeals Renewal Initiative to determine which changes should be adopted.

Inter-Provincial Asset Transfers: Preventing Abuse

- Ontario will enact technical changes which will adopt the elective income tax rollover provisions of the Income Tax Act (Canada) more closely.
  - Where a corporation transfers an asset and makes an election under the rollover provisions for federal purposes, Ontario will deem the election to have been made for Ontario purposes, and when a corporation transfers assets but does not make an election for federal purposes, it will not be allowed to make an Ontario election. In addition, Ontario will require that the elected amount for Ontario purposes be the same as the federal elected amount.
  - These restrictions will also apply to other elective situations such as a change of control where corporations are deemed to dispose of property at proceeds of disposition which they can designate.
  - These changes will be effective for rollovers occurring on or after May 6, 1997 and for designations or elections on deemed dispositions occurring in taxation years ending on or after May 6, 1997. However, to avoid disrupting taxpayers who conduct

virtually all of their business in Ontario, the above restrictions will not apply where each party participating in the rollover (or designating or electing proceeds on deemed dispositions) has over 90 per cent of its income allocated to Ontario.

- In addition, legislative changes will be made to the Corporations Tax Act and the Income Tax Act (Ontario) to adopt the measures to reduce tax avoidance relating to inter-provincial asset transfers which were announced on December 19, 1996. These measures prevent taxpayers from avoiding provincial tax on inter-provincial asset transfers. The rules apply to all dispositions of assets to non-arm's length parties utilizing the federal rollover provisions where the disposition results in either:
  - an undue increase in the tax cost base of the asset transferred; or
  - an undue reduction of the taxpayer's income.
- These measures to reduce tax avoidance apply to transactions or series of transactions commencing on or after December 19, 1996, and to transactions or series of transactions commencing prior to December 19, 1996 and completed after this date.

Facilitating Hospital Mergers

- Relief will be provided to facilitate the restructuring of publicly-funded hospitals for tax liabilities under the Retail Sales Tax Act and the Land Transfer Tax Act.

Fair Tax Treatment for Small Estate Wineries

- For the 1998 and subsequent taxation years, buildings located on farms, such as wineries, that are used to process or sell the produce from the farm, will be treated for property assessment purposes in a manner similar to farm residences, i.e., the land under the buildings will be valued as farm land. This will ensure fair and equitable property tax treatment of small estate wineries.

Registered Insurance Brokers

- Brokers who place insurance with unlicensed insurers are required under the Registered Insurance Brokers Act to collect and remit the equivalent to the premium tax to the Ontario Insurance Commission.

- Also, reciprocal or inter-insurance exchanges licensed under the Insurance Act presently remit their premium tax through their attorneys to the Ontario Insurance Commission.

- The collection of these taxes is being transferred from the Ontario Insurance Commission to the Corporations Tax Branch, which presently collects premium taxes from other insurers. Necessary amendments will be made to the Registered Insurance Brokers Act, the Insurance Act and the Corporations Tax Act effective for taxation years commencing after December 31, 1997.

Other Capital Tax Changes

Investment Allowance Year-End Transactions

Corporations may artificially increase their investment allowance claim by advancing funds to related corporations having a different taxation year end. The recipient corporation excludes such advances from paid-up capital by repaying them before their year-end.

- Effective for taxation years ending on or after October 31, 1997, the Corporations Tax Act will be amended to deny the reduction of paid-up capital in respect of a loan or an advance if it is established that the loan or advance:
  - was made to a related corporation that has a later year-end;
  - was not outstanding 120 days before the year-end of the corporation making the advance; and
  - was made or issued as part of a series of loans or advances and repayments.

- A loan or advance will generally be considered to be part of a series of loans or advances and repayments where the amount is repaid by the related corporation prior to its year-end and therefore not subject to capital tax.

Investment Allowance Subsidiaries of Financial Institutions

Corporations may artificially increase their investment allowance claim by advancing funds to a subsidiary of a financial institution on a short-term basis instead of directly to the financial institution.

- Effective for taxation years ending on or after October 31, 1997, the Corporations Tax Act will be amended to extend the 120-day holding restriction to any arrangement entered into with a corporation related

to a financial institution listed in subclause 62(1)(c)(iv) of the Act where the loan or advance is guaranteed or otherwise secured by the financial institution.

Other Amendments

To improve the administrative effectiveness and efficiency and maintain the technical integrity of the tax system, various changes will be made to the following Ontario tax statutes:

- Income Tax Act
- Labour Sponsored Venture Capital Corporations Act
- Corporations Tax Act
- Land Transfer Tax Act
- Retail Sales Tax Act
- Fuel Tax Act
- Gasoline Tax Act
- Mining Tax Act
- Race Tracks Tax Act
- Tobacco Tax Act

These amendments include:

- enacting legislation similar to the federal government's enhanced garnishment or "super priority" provisions to give Ontario priority over secured creditors for funds held in trust when a garnishment is issued;
- enacting legislation to clarify that, where a taxable product is sold at a temperature-adjusted volume, the motive fuel tax collected and remitted is based on the temperature-adjusted volume, and where taxable product is sold at the ambient temperature, the motive fuel tax collected and remitted is based on the ambient temperature volume;
- enacting legislation to extend the reassessment and refund periods to a maximum of four years in tax statutes where this is not currently the case;
- amending the definition of "sale" in the Retail Sales Tax Act to provide authority for the Minister to prescribe what constitutes a "sale" of telecommunications services in order to eliminate the possibility of double taxation or avoidance of tax;

- amending the corporate minimum tax provisions in the Corporations Tax Act effective May 6, 1997:
  - to provide a deduction for dividends subject to tax under Part VI.1 of the Income Tax Act (Canada),
  - to exempt dividends of central credit unions that are deductible for income tax purpose, and
  - to ensure that there is no deduction for dividends reclassified for accounting purposes as interest expense; and
- enacting legislation to make other technical and housekeeping amendments.

All enquiries regarding tax changes to make the tax system fairer should be directed to:

Tax Design and Legislation Branch
Ministry of Finance
2nd floor, Frost Building North
95 Grosvenor St.
Toronto, Ont.
M7A 1Y7

English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Appendix C1

Framework for Community Small Business Investment Funds

As noted by the Committee on Small Business Access to Capital, small businesses with $1 million or less in assets and revenue have difficulty accessing venture capital. These businesses are typically at the seed or start-up phase of development.

Venture capital financing occurs along the continuum of a company's development. Within the venture capital spectrum, seed or early-stage financing would normally be supplied by family members and by the informal venture capital market (commonly referred to as "angels"). Formal venture capitalists provide some capital at the seed stage, but focus predominantly on the middle and later stages of a company's development. Banks and pension funds tend to invest in larger amounts at the later stages of a company's development.

The supply of formal venture capital has grown rapidly in Ontario, primarily as a result of federal and provincial personal income tax incentives to average individuals purchasing shares in labour sponsored investment funds (LSIFs). LSIFs have filled the gap created by the exit of traditional institutional and corporate investors in the late 1980s and early 1990s. The exit of these institutions caused a decline in Ontario's capital under management from $1.7 billion in 1989 to $1.2 billion in 1992. LSIF's share of capital under management rose from 11 per cent in 1992, to 30 per cent in 1994. In 1996, Ontario's venture capital market had $2.8 billion of capital under management, of which LSIFs accounted for one-half.

While the overall supply of venture capital has increased significantly as a result of the LSIF program, there has not been a corresponding increase in the supply for smaller businesses (e.g., under $1 million in assets) requiring smaller amounts of capital. The imperative is to direct more of the capital raised through tax assistance to the seed or early-stage segment of the market.

To provide small, local growth-businesses with greater access to capital and to complement the LSIF program and the small business investment tax credit for financial institutions, Ontario will introduce the Community Small Business Investment Funds (CSBIF) program. A formal fund approach will encourage capital to be dispersed among many communities, ensure that capital is committed, provide a local, alternative source of patient capital for small businesses in the community and provide a real focus for investment partnerships with the community.

The impetus for the creation of a fund in a particular area or community can emanate from any number of sources, such as the community itself, local angels, a local financial institution or an LSIF. Synergies can result through this arrangement, regardless of who initiates the fund.

The Government believes that promising investment opportunities in early-stage, growing small businesses are available and should be facilitated. The greatest potential for success lies in coordinated action among key players: LSIFs, financial institutions, angels, the Government of Ontario and the federal government. The Government proposes the following framework for CSBIFs.

Sponsors

- A Community Small Business Investment Fund must be sponsored by: one or more lower-tier or local municipalities within a region, county or district; an upper-tier municipality; or a single-tier municipality. Alternatively, a Community Small Business Investment Fund must be sponsored by one or more universities.

- Active community participation will be required on an ongoing basis, through community involvement on the Board of the CSBIF by the sponsor or by other persons from the community acceptable to the sponsor.

Fund Size/Structure

- Minimum fund size of $5 million and maximum fund size of $10 million apply. A single investor will be limited to an investment of $5 million.
- Closed-end fund with a maximum life of ten years, subject to investors' right of extension.
- Up to 10 per cent of the fund's capitalization can be used to finance operating expenses over the life of the fund.
- It is expected that there will be no disbursements to investors from the CSBIF before 90 per cent of the shareholder equity of the CSBIF is invested and until at least the end of the sixth year.
- Financial institutions and LSIFs are prohibited from recovering any charges or fees from the CSBIF.

Governance

- Sponsoring entity will have minority representation on the board.
- Investors will have majority representation on the board.

Investment Parameters

- Ninety per cent of shareholder equity must be invested; at least 50 per cent must be invested within two and one-half years of capitalization of the CSBIF.
- Investments will be in qualifying small businesses (deal sizes of under $250,000).
- Initial investments in companies with $1 million or less in assets and revenues.
- Follow-on financing will be allowed, but no more than one-fifth of the fund's shareholder equity can be invested in any one company.
- Eligible investments will be restricted to the sponsor's "community."
- Certain businesses will not qualify for investment (e.g., real estate, personal services corporations and specified investment businesses).

Financial Penalties

- Financial penalties will apply if the investment requirements are not fulfilled.

Sources of Capital

The Government will encourage this new community venture capital focus by re-directing existing tax-assisted pools of capital. An enriched financial institutions' tax credit and investment pacing incentives for LSIFs will encourage the capitalization of CSBIFs.

CSBIFs may also receive capital from local private investors (i.e., angels), local corporations, community organizations and pension funds. Local private investors could also co-invest along side the CSBIF in addition to, or instead of, investing directly in the CSBIF. No incentives are planned to encourage direct investment in CSBIFs by the general public.

Next Steps

The Government will introduce legislation to create Community Small Business Investment Funds following consultations with communities, LSIFs, local corporations, angels, financial institutions, the federal and municipal governments and other interested parties.

Labour Sponsored Venture Capital Corporations Act

The Labour Sponsored Venture Capital Corporations Act provisions will be contained in the new Community Small Business Investment Funds Act.

Tax Incentives for Investments in CSBIFs

- To maximize investments in small and medium-sized businesses and to assist in the capitalization of CSBIFs, LSIFs will be permitted to invest in small businesses through CSBIFs:
  - Effective July 1, 1997, LSIFs will be able to set aside capital in a segregated account for CSBIFs. Each dollar set aside in an account will count as two dollars towards either an LSIF's small business investment requirement or against penalty taxes owing.
  - LSIFs will be allowed to carry forward any unused credit.
  - The incentive will be in effect until December 31, 1998.
  - The capital, including interest, set aside in 1997 must be transferred to a CSBIF within six months after the legislation to establish CSBIFs receives royal assent. The capital, including interest, set aside in 1998 must be transferred to a CSBIF on or before December 31, 1998.

- In addition, qualifying investments made by an LSIF in a CSBIF will count dollar-for-dollar against the LSIF's small business investment requirement when the CSBIF reinvests the amount of the LSIF's investment in small businesses.

- If the capital, including interest, is not transferred to a CSBIF, the LSIF will be required to invest the capital and any interest according to the small business investment requirement within the remaining time of the investment period.

Small Business Investment by Labour Sponsored Investment Funds

◆ To encourage investment in small business, the small business investment requirement will be increased to 15 per cent for 1997 and 1998 and to 20 per cent for 1999 and subsequent years:

- For capital raised after May 6, 1997 and before March 2, 1999, the small business investment requirement will be increased to 15 per cent of the capital required to be invested.

- For subsequent investment periods, which commence on the 61st day of a year and end on the 60th day of the following year, the small business investment requirement will be 20 per cent of the capital required to be invested.

Concordance with the Income Tax Act (Canada)

♦ Certain provisions relating to LSIFs will be amended to harmonize with proposed 1997 federal budget changes for labour sponsored venture capital corporations:

- The maximum total investment in an eligible business is increased from the current $10 million limit to $15 million.

- For the purposes of the 500-employee limit, part-time employees will count as one-half an employee.

All enquiries regarding Community Small Business Investment Funds and Labour Sponsored Investment Funds should be directed to:

Taxation Policy Branch
Ministry of Finance
5th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7
English: 1-888-562-4769 or 1-888-JOB-GROW
French: 1-888-562-4769 or 1-888-JOB-GROW
Teletypewriter (TTY): 1-800-263-7776

Revenue Changes: 1997 Budget Impact Summary ($ million) **Table C1**

	1997-98	Full Year
Income Tax Act		
PIT Cut	(625)	(4,815)*
Fair Share Health Care Levy	35	260*
Subtotal	**(590)**	**(4,555)***
Enriched Ontario Tax Reduction for Families	(15)	(25)*
Child Care Tax Credit	(40)	(40)
Small Business Development Corporations Act		
Wind-up of Program	(5)	(10)
Retail Sales Tax Act		
Extended Rebate for Farmers	(10)	(14)
Computer Programs	50	55
Exemption for R&D Equipment for Manufacturers	(4)	(5)
Exemption for Non-Profit Medical R&D Equipment	(4)	(5)
Land Transfer Tax Act		
First-Time New Home Buyers Refund	(16)	(20)
Higher Non-Resident Rate Eliminated	(3)	(3)
Corporations Tax Act		
Ontario Business-Research Institute Tax Credit	(25)	(30)
Eliminating 5% Tax on Technology Transfers	(5)	(30)
Ontario New Technology Tax Incentive	(5)	(10)

* Reflects full implementation.

Note: 1997 Budget continues phase-in of Employer Health Tax exemption and elimination of self-employed health tax announced in the 1996 Budget

	1997-98	Full Year
Ontario Computer Animation and Special Effects Tax Credit	(7)	(10)
Enrichment to Film and Television Tax Credit	(5)	(7)
Improvements to Co-operative Education Tax Credit *	(2)	(10)
Ontario Graduate Transitions Tax Credit *	(35)	(40)
Ontario Book Publishing Tax Credit	(2)	(3)
Capital Tax Deduction for R&D Expenditures	(1)	(1)
Capital Tax Harmonization for Financial Institutions	40	40
Temporary Capital Tax Surcharge on Large Financial Institutions	10	20
Improvements to Small Business Investment Tax Credit	(40)	(60)
Amendments to the Investment Allowance	0	1
Concordance with the Income Tax Act (Canada)	0	(1)
Making the Tax System Fairer	58	151
Other Changes		
Vehicle Registration Fees	0	0
Total Revenue Changes	(656)	(4,612)

* Includes credits claimed by unincorporated businesses.

Paper D

Ontario Financing Operations

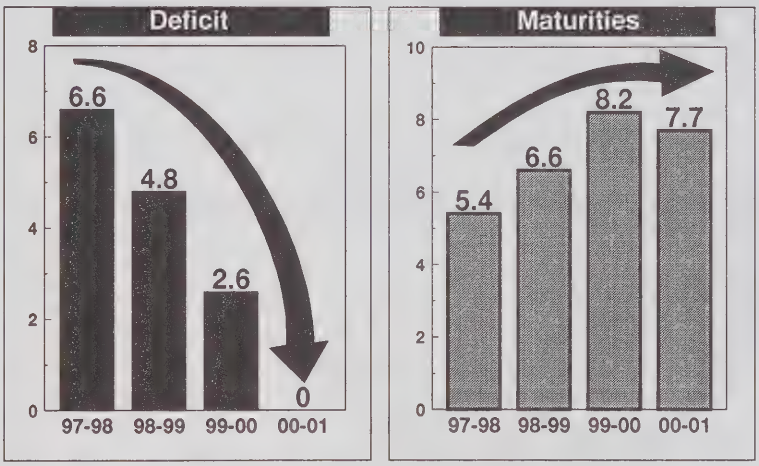
Introduction

For the second year in a row, the Province has exceeded the deficit targets outlined in the Balanced Budget Plan. In the 1997-98 fiscal year, the provincial deficit will be reduced to $6.6 billion, a decrease of over 40 per cent from the $11.3 billion potential deficit outlook facing Ontarians in June 1995.

The Province's financing operations continue to benefit from the Government's Balanced Budget Plan. Declining deficits and lower market rates overall, coupled with narrower interest rate premiums on Ontario bonds and efficient financing operations, have resulted in lower-than-anticipated debt costs. Together, these factors contributed to savings of $286 million in Public Debt Interest (PDI) charges from estimates forecast in the 1996 Ontario Budget.

Borrowing Shifting to Refinancing

Deficit and Maturities (1997-98 to 2000-01)



By 1998-99, borrowing to refinance maturing debt ($6.6 billion) will be higher than borrowing to finance the deficit ($4.8 billion). As annual deficits fall to zero, the focus of the Province's financing operations will shift toward refinancing existing debt which is maturing. By 2000-01, the Province will be in a position to begin paying down its accumulated debt.

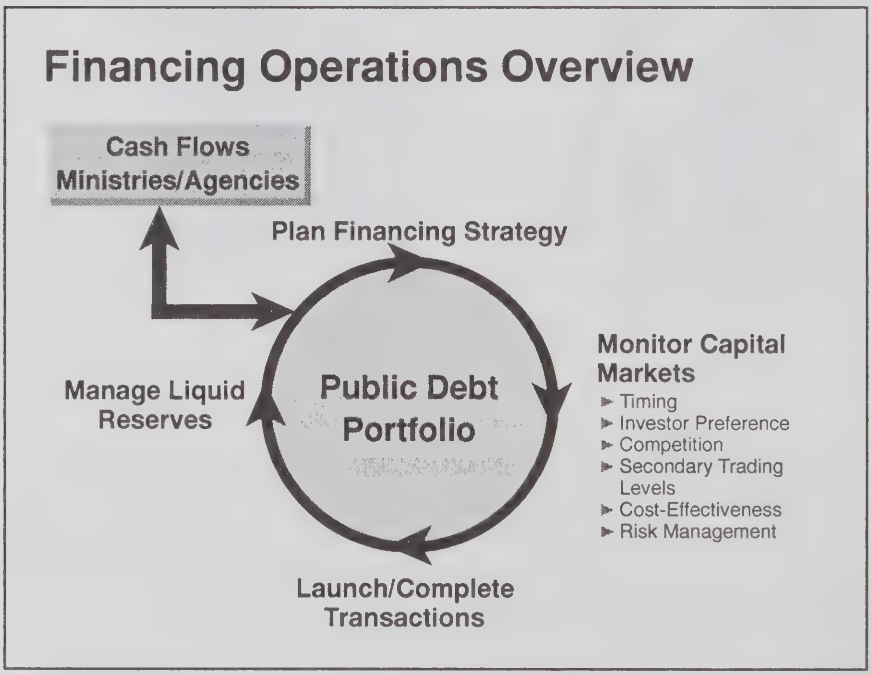
Financing Operations Overview

Financing operations encompass the following activities.

- *Borrowing and Corporate Finance*
  Funds are borrowed by issuing fixed income securities in the public capital markets domestically and internationally. The primary goal of this activity is to meet the Province's financial requirements cost-effectively. Pooled funding or alternative financing arrangements reduce financing requirements and/or costs.

- *Public Debt Management*
  Public debt is actively managed within a framework of strict risk management policies. Goals are to secure cost-effective and stable funding while maintaining a prudent debt profile. Another important aspect of this activity is developing a reliable annual PDI forecast.

- *Cash Management*
  Cash management includes control of cash flows and banking relationships.



The Ontario Financing Authority carries out these activities for the Province and

The Ontario Financing Authority carries out these activities for the Province and its various Crown corporations and agencies. In addition, it coordinates borrowing strategy with Ontario Hydro to ensure orderly access to domestic and international capital markets.

In performing these activities, the Ontario Financing Authority:

- develops markets for Ontario debt at home and internationally;
- actively manages capital market risks;
- optimizes the use of the Provincial guarantee; and
- sets the framework for cash management practices.

Financing Operations Benefit from Strong Fundamentals

Ontario's Financing 1996-97 ($ Billions)	**Actual 1995-96**	**Budget 1996-97**	**Interim 1996-97**
Deficit	8.8	8.2	7.5
Cash Timing Adjustments	(2.0)	0.1	(1.9)
Net Cash Requirements	6.8	8.3	5.6
Maturities	2.1	6.1	6.4
Borrowing on Behalf of Agencies	(0.1)	0.5	0.3
Total Financing Requirements	**8.8**	**14.9**	**12.3**
Financed by			
Decrease/(Increase) in Liquid Reserves	(3.3)	4.7	5.6
Other Sources	0.1	0.2	0.2
Public Borrowing	12.0	10.0	6.5
Total	**8.8**	**14.9**	**12.3**

Net cash requirements and maturities are the key determinants of borrowing requirements. The net cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

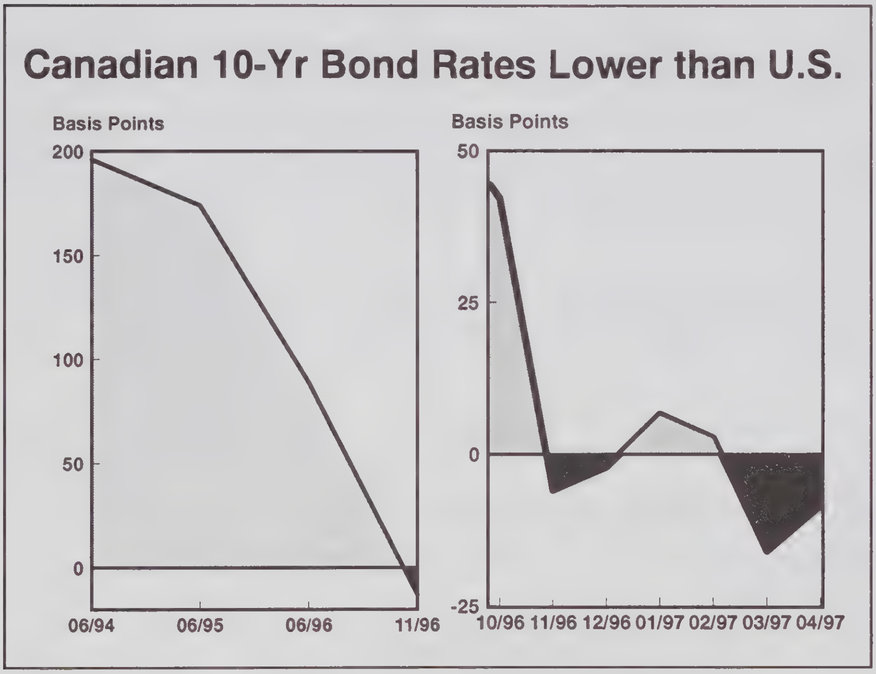
At the beginning of 1996-97, the Province's public borrowing requirements were estimated at $10 billion. By year-end, however, public borrowing requirements had fallen to $6.5 billion, primarily as a result of:

- increased revenues;
- an additional reduction in liquid reserves;
- lower expenditures, including interest charges on public debt; and
- effective debt management activities.

Canada-U.S. Spreads Lowest in Four Decades

The improvement in Ontario's and Canada's fiscal situation has increased investors' receptiveness to Ontario's debt issues. This, coupled with overall favourable market conditions, has allowed the Province to borrow at the lowest rates since its re-entry into the public capital markets in 1991.

- Unparalleled in recent history, Canadian 10-year bond rates have edged below the comparable U.S. Treasury benchmark and have held this ground (on a generally sustained basis) since February 1997.



- In relation to its Government of Canada benchmark, Ontario 10-year bond rates were lower throughout 1996-97 than in 1990-91, when Ontario held a AAA credit rating. On average, Ontario's spreads were 22.5 basis points above Canada's in 1996-97 versus a 57 basis points differential in 1990-91.

Financing Activities

In 1996-97, the Ontario Financing Authority borrowed $7.2 billion in domestic and foreign capital markets. $6.5 billion of this amount settled in 1996-97 and is reported in the Appendix to this paper. The remaining $0.7 billion ($0.6 billion of which was in the Canadian dollar market) settled in early 1997-98.

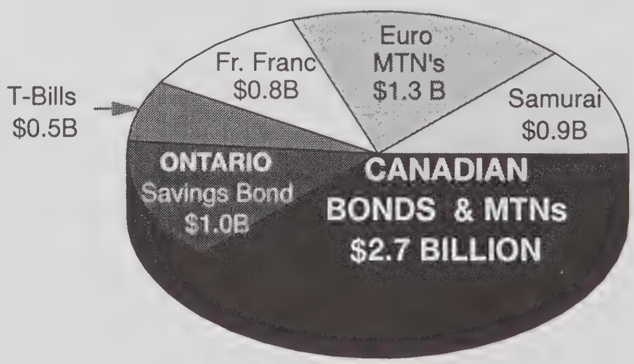
Domestic Financing Activities

The Canadian dollar market remained Ontario's primary source of funds, accounting for more than half of total borrowing transacted during the year ($4.2 billion of $7.2 billion). The following were the key features of the 1996-97 borrowing program:

- The second Ontario Savings Bond campaign was very successful, raising over $1 billion.
- A key feature of the Province's domestic market activity was the use of Canadian Medium Term Notes (CMTNs) targeted to specific retail and institutional investors.
- Some maturing debt had interest rates as high as 16.9%. This debt was refinanced with long-term Canadian rates as low as 7.5%.

Source of Ontario's Borrowing

Total Public Borrowing of $7.2 Billion in Fiscal 1996-97[1]



[1] Includes $0.7 billion transacted in 1996-97 and settled in 1997-98

As at March 31, 1997

Foreign Financing Activities

Internationally, Ontario borrowed in the following currency markets: US$, Australian$, New Zealand$, French Franc, Norwegian Kroner, Japanese yen.

To broaden Ontario's investor base, the Ontario Financing Authority diversified its use of financing instruments.

- The Province issued its first *samurai* bonds[1]. The three samurai issues launched during the fiscal year comprised almost $0.9 billion of the over $2 billion raised from Japanese investors in 1996-97.
- Ontario's first offer of a FF3 billion ($0.8 billion) issue was well received in the Euro-French Franc bond market.

Responding to investor demand, the Province doubled the authorized size of the European Medium Term Note (EMTN) program from $3 billion to $6 billion. Currently, Ontario has $3.4 billion outstanding under this program.

[1] "Samurais" are bonds issued into the Japanese domestic market by non-Japanese entities.

1997-98 Borrowing Requirements

For 1997-98, the Province's total financing requirements stand at $15.2 billion, of which planned long-term borrowing is $9.9 billion. The balance will be made up from a decrease in liquid reserves, short-term borrowing, and $0.7 billion in borrowing transacted in 1996-97.

Ontario's Financing ($ Billions)	1997-98 Budget
Deficit	6.6
Cash Timing Adjustments	2.6
Net Cash Requirements	9.2
Maturities	5.4
Borrowing on Behalf of Agencies	0.6
Total Financing Requirements	**15.2**
Financed by	
Decrease in Liquid Reserves	3.0
Other Sources	0.1
Financing Already Completed in 1997-98	0.7
Increase in Short-Term Borrowing	1.5
Planned Long-Term Borrowing	9.9
Total	**15.2**

Net cash requirements and maturities are the key determinants of borrowing requirements. The net cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

Capital Markets Outlook

U.S. short-term interest rates are projected to increase, in comparison to 1996-97, as the U.S. Federal Reserve Bank attempts to slow the American economy. This would place upward pressure on Canadian interest rates[2]. As a result, interest charges on planned short- and long-term borrowing may increase this year despite continued positive fiscal fundamentals.

[2] Interest rate assumptions are set out in Budget Paper A.

Capital Markets Strategy

As opportunities arise, Ontario will issue bonds and Canadian Medium Term Notes in the domestic market, which continues to represent the Province's most important source of funds.

- A third offering of Ontario Savings Bonds is planned for May and June.

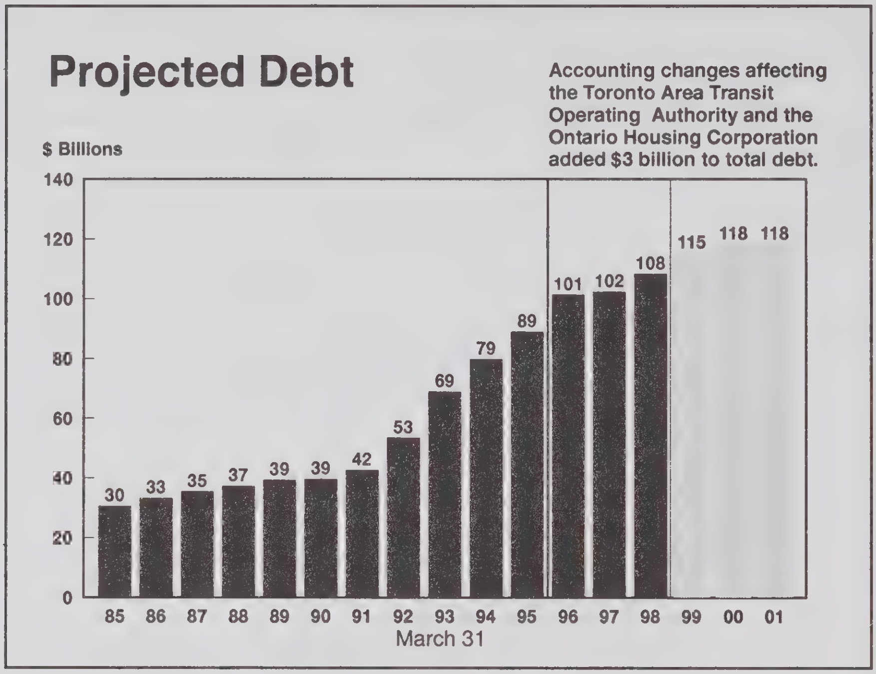
The Ontario Financing Authority will continue to monitor international markets for cost-effective borrowing opportunities.

- The Province expects to return to the global C$ and US$ markets in the coming year. Denominated in a selected currency, a global bond is a debt offering simultaneously issued in multiple international financial markets.

- The Japanese market remains an important source of cost-effective borrowing.

Provincial Purpose Debt Stock – Growth in Debt Slows

Total provincial purpose debt, including accounting changes affecting the Toronto Area Transit Operating Authority and the Ontario Housing Corporation, stood at $102 billion on March 31, 1997, or about a billion dollars lower than forecast in the 1996 Ontario Budget. Without these accounting changes, total debt would have stood at $99 billion, or almost $4 billion less than originally forecast. This reflects lower 1996-97 borrowing requirements.



Prudent Debt Management

Prudent debt management is vital to the Government's overall debt reduction efforts. Several key principles guide this activity. These include: managing debt with a view toward ensuring cost effectiveness and stability; maintaining a smooth debt profile (primarily denominated in Canadian dollars) through term selection and other means; and safeguarding Ontario's credit rating.

Prudent Management of the Public Debt Interest (PDI) Forecast

If PDI is not forecast accurately, other Government programs may be put at risk during the year. Consequently, PDI budgets are prepared to minimize this possibility by:

- using prudent forecasts of interest rates which should prevent an over-budget expenditure even if rates rise moderately; and
- taking careful account of all forecast cash needs of the Province beyond that of the deficit.

Cost-Effective and Sound Financing

PDI savings are achieved through the following successful actions in Ontario's borrowing program:

- timing issues to take advantage of lower interest rates;
- realizing savings from increasing financing at short-term rates;
- capturing savings from foreign exchange differentials;
- strategic use of international markets when savings opportunities presented.

Risk Management Framework

There are several risks inherent to any financing transaction. The major ones are foreign exchange and interest rate risk. Consequently, in all of its activities, the Ontario Financing Authority is bound by policies which impose strict limits on the type and amount of risk exposure it may assume. The purpose of these policies is to mitigate potential negative impacts associated with interest rate or foreign currency fluctuations and credit losses.

The key elements of Ontario's risk management policy framework are shown below:

Policy Framework	Status on March 31, 1997
Interest Rate Exposure The maximum limit on floating rate debt (net of liquid reserves) is 20% of total debt outstanding.	Less than 5%.
Foreign Currency Exposure Unhedged debt in foreign currencies is not to exceed 5% of total debt outstanding.	Less than 1%.
Counterparty Risk To mitigate interest rate and foreign currency exposure, the Province enters into legal contracts with counterparties. Ontario only enters into arrangements with counterparties rated double "A" or higher.	Hedge[3] portfolio, notional value, $90.2 billion.

Debt Profile

While the majority of the Province's debt ($66.3 billion) is denominated in C$, the Province has issued debt in 10 other currencies. At March 31, 1997, all but $0.8 billion of debt issued by the Province in other currencies had been effectively converted to Canadian dollar debt through prudent financial contract arrangements with counterparties[4].

Another way in which we manage the debt portfolio prudently is through term selection. The duration of new issues is selected to smooth future borrowing requirements.

[3] A hedge is a financial instrument or contract used to offset risks. For example, where the Province had issued a US$ global bond, financial contracts would be used to convert foreign currency cash flows into C$ denominated cash flows.

[4] Under this arrangement, known as a "swap agreement," the parties agree to take responsibility for a financial obligation incurred by the other. Status of exposure to and credit rating of counterparties is monitored daily.

Safeguarding Ontario's Credit Rating

Prudent debt management contributes fundamentally to the strength of Ontario's credit. Equally important is the ongoing coordination between the Ontario Financing Authority and Ontario Hydro. By coordinating borrowing strategy, orderly access to capital markets is maintained among issuers relying on the province's credit strength.

Move to Centralize Financial Activities Pays Dividends

Last year, the Province centralized certain financial activities at the Ontario Financing Authority. This move was taken to reduce duplication, achieve efficiencies and lower overall borrowing costs. As a result of this initiative, opportunities to generate potential annual savings of some $7 million were identified.

Initiative	1996-97	1997-98
Banking Tender	✔	
Cash Flow Optimization Project		✔
Tender for Fiscal Agents and Custodial Services	✔	
Development of Pooled Fund Structure	✔	
Implementation of Pooled Fund Structure[5]		✔

This year, the Province will look at ways to improve the timeliness of its cash flows, including tax remittances and flows to transfer payment partners. Another area of operations to be reviewed is the expanded use of debit cards and electronic banking technology. As new efficiencies ease cash balance requirements, liquid reserve levels may be lowered, leading to lower Public Debt Interest charges.

[5] A pooled fund structure delivers economies of scale achieving gains associated with timing, liquidity and market access. It represents another way in which use of provincial credit is optimized.

Appendix I: Financial Tables

Introduction

The appendix provides in-depth information on the Province's debt portfolio.

Chart 1 displays the distribution of Provincial debt between public and non-public markets as of March 31, 1997. Prior to 1991, the Province mainly financed its borrowing requirements in non-public markets from public sector pension funds and the Canada Pension Plan. In 1991, the Province re-entered public capital markets after the partial deregulation of public sector pension funds in Ontario. As non-public debt matures, it will be refinanced from the public capital markets. Over the last year, the Ontario Financing Authority has replaced maturing debt, borrowed at interest rates as high as 16.9 per cent, with long-term debt at interest rates as low as 7.5 per cent.

The second chart shows debt outstanding by currency. With about $102 billion in total debt outstanding, the Canadian dollar remains the Province's core market ($66.3 billion), followed by the U.S. dollar ($23.5 billion), and the Japanese yen ($4.9 billion).

Table I(A) is a five-year summary of the Province's public and non-public debt outstanding.

Table I(B) presents the maturity schedule for debt issued by the Province.

Table I(C) summarizes the financial contracts entered into by the Ontario Financing Authority as part of its prudent practices in managing the Province's debt. These contracts limit the exposure to interest rate and currency fluctuations.

Series II displays detailed information, such as date of issue and maturity, interest rates, original and currently outstanding issue amounts, on each of the Province's public and non-public issues.

Chart 1

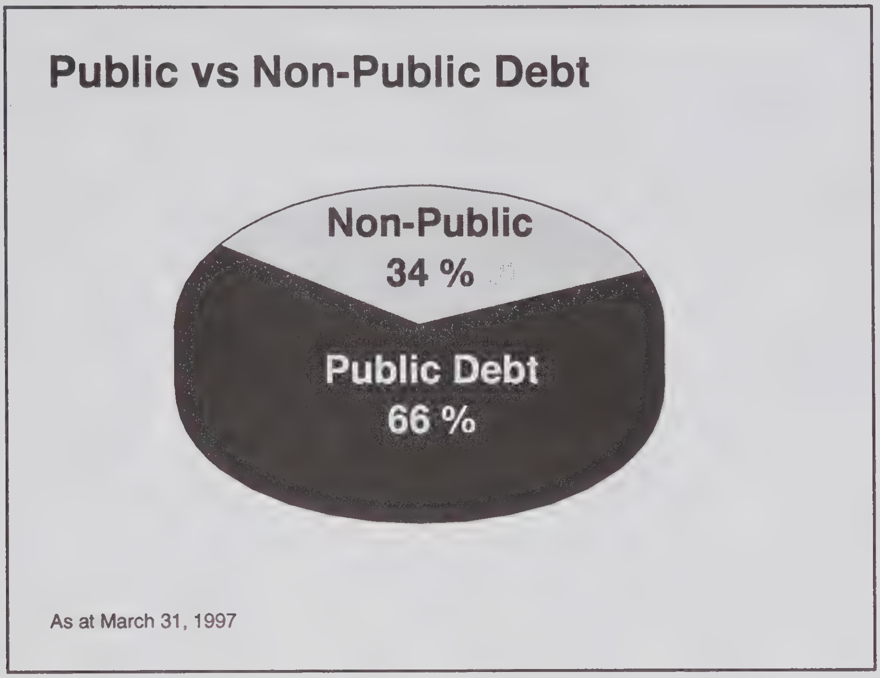


Chart 2

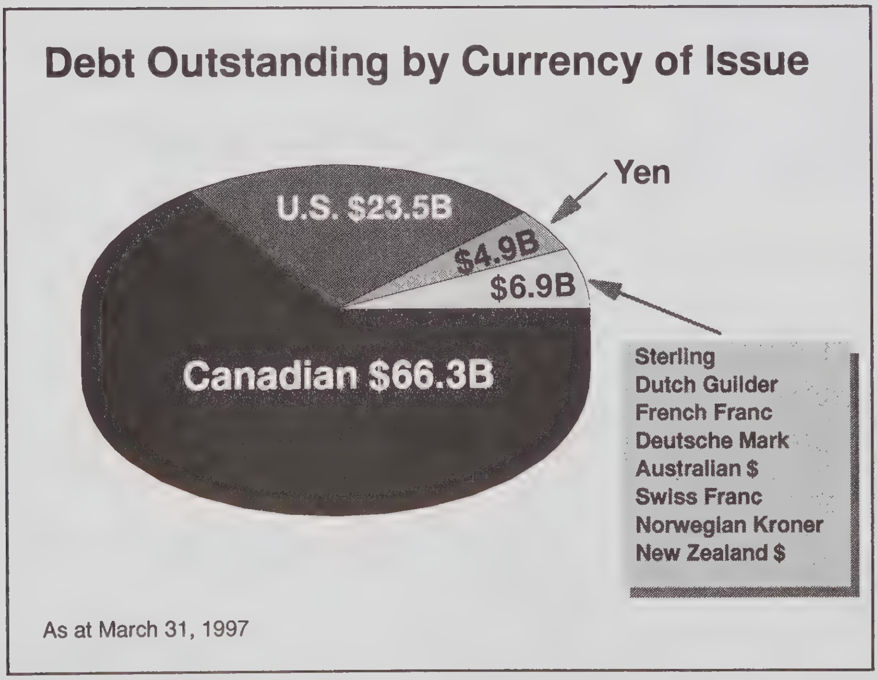


TABLE I(A)

SUMMARY OF PROVINCIAL PURPOSE DEBT

As at March 31,

	1993(1)	1994(2)	1995(2)	1996(2)(4)	Interim 1997(2)(4)
	(in millions)				
Incurred by the Province					
Non-Public Debt					
Minister of Finance of Canada:					
Canada Pension Plan	$13,712	$13,105	$12,404	$11,620	$10,807
Other	20	14	8	4	0
	$13,732	$13,119	$12,412	$11,624	$10,807
Ontario Teachers' Pension Fund	14,899	14,648	14,584	14,386	14,049
Ontario Municipal Employees Retirement Fund(5)	1,293	1,164	1,015	742	721
Colleges of Arts and Technology Pension Plan(5)	---	---	--	91	91
Canada Mortgage & Housing Corporation	275	270	264	258	251
Public Service Pension Fund	6,046	5,939	3,976	3,884	3,790
Ontario Public Service Employees' Union (OPSEU) Pension Fund	---	---	1,859	1,816	1,772
Ryerson Retirement Pension Plan	---	---	16	16	9
	$36,245	$35,140	$34,126	$32,817	$31,490
Publicly Held Debt					
Debentures and Bonds(3)	$26,239	$38,225	$49,522	$60,888	$61,962
Treasury Bills	2,912	2,884	1,921	1,716	2,208
U.S. Commercial Paper(3)	705	465	142	177	---
	$29,856	$41,574	$51,585	$62,781	$64,170
Total Debt Incurred by the Province for Provincial Purposes	$66,101	$76,714	$85,711	$95,598	$95,660
Incurred by Government Service Organizations(4)					
Canada Pension Plan	---	---	---	$1,323	$1,323
Canada Mortgage & Housing Corporation	---	---	---	1,038	1,021
Collateralized Financing	---	---	---	430	433
Other	---	---	---	18	36
Total Debt Incurred by Government Service Organizations for Provincial Purposes	---	---	---	$2,809	$2,813
Total Debt Incurred for Provincial Purposes	$66,101	$76,714	$85,711	$98,407	$98,473
Other					
Province of Ontario Savings Office	$ 2,068	$ 2,059	$ 2,089	$ 2,220	$ 2,148
Other Liabilities	438	666	780	769	1,000
Subtotal	$ 2,506	$ 2,725	$ 2,869	$ 2,989	3,148
Total Provincial Purpose Debt	$68,607	$79,439	$88,580	$101,396	$101,621

Source: Ontario Ministry of Finance

(1) Figures for fiscal 1992-93 have been prepared on a modified cash basis of accounting and have not been restated to reflect the change to modified accrual and consolidation accounting wh commenced with the fiscal 1993-94 financial statements, as the necessary adjustments are not reasonably determinable. Therefore, comparisons of information from years prior to fiscal 1993 with fiscals 1993-94, 1994-95, 1995-96 and Interim 1997 may not be meaningful.

(2) Prepared on the basis of modified accrual and consolidation accounting. See Note (1) above.

(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(4) Figures for Interim 1997 reflect the change in status of Ontario Housing Corporation ("OHC") and the Toronto Area Transit Operating Authority ("TATOA") to Government Ser Organizations, which are consolidated on a line-by-line basis . Fiscal 1995-96 figures have been restated to reflect this change. Fiscal 1994-95 and prior years have not been restated and ref OHC and TATOA as Government Enterprises, which are consolidated on the modified equity basis. Therefore, comparisons of information from years prior to fiscal 1995-96 with fis 1995-96 and interim 1996-97 may not be meaningful.

(5) The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension P in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.

TABLE I(B)

ONTARIO'S DEBT MATURITY SCHEDULE

Interim 1997[1]

(in millions)

	Debt Issued for Provincial Purposes		Ontario Hydro Purposes[4]			
Year Ending March 31,	Publicly Held Debt[2]	Non-Public Debt	United States Dollar-Denominated[3]	Canadian Dollar-Denominated	Total	% of Total
1998	$ 6,257	$ 1,260	$ 0	$ 0	$ 7,517	7.4%
1999	4,079	1,701	0	0	5,780	5.7
2000	6,075	2,128	0	0	8,203	8.1
2001	6,022	1,477	0	500	7,999	7.9
2002	6,123	1,542	0	500	8,165	8.0
1998-2002	28,556	8,108	0	1,000	37,664	37.1
2003-07	25,335	11,608	0	119	37,062	36.5
2008-12	866	10,475	0	1,629	12,970	12.8
2013-17	542	3,213	392	0	4,147	4.1
2018-22	1	380	0	0	381	0.3
2023-47	9,304	85	0	0	9,389	9.2
	$64,604	$33,869	$ 392	$2,748	$101,613	100.0%

(1) Prepared on the basis of modified accrual and consolidation accounting.

(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(3) Translated into Canadian dollar terms at the prevailing exchange rate in effect at the date of the financial statements.

(4) This debt is offset by bonds of Ontario Hydro bearing like terms and conditions to the Ontario obligations.

Table I(C)
DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents a preliminary maturity schedule of the Province's derivative financial instruments, by type, outstanding at March 31, 1997, based on the notional amounts of the contracts.

The Province has sizeable financing requirements, generally to refinance maturing indebtedness and to fund the annual deficit of the Province. To meet these financing requirements in the most cost-effective manner, the Province has issued a variety of debt instruments in domestic and international markets. To take advantage of favourable interest rates, the Province issues debt instruments that are repayable in numerous currencies other than Canadian dollars. The Province uses derivative financial instruments to mitigate exposure to foreign currency and interest rate risks.

DERIVATIVE PORTFOLIO NOTIONAL VALUE
as at March 31, 1997

Maturity in Fiscal Year	1998	1999	2000	2001	2002	6-10 Years	Over 10 Years	Interim 1997 Total	1995-96 Total
	(in millions)								
Swap:									
Cross Currency	$ 2,907	4,119	5,672	6,022	5,594	21,207	1,243	46,764	$39,839
Interest Rate	5,055	1,335	4,126	4,237	3,155	19,485	65	37,458	32,706
Forward Foreign Exchange Contracts	2,538	0	0	0	0	0	0	2,538	2,519
Forward Rate Agreements .	925	0	0	0	0	0	0	925	1,258
Futures	557	387	291	0	0	0	0	1,235	1,742
Options	1,322	0	0	0	0	0	0	1,322	
	$13,304	5,841	10,089	10,259	8,749	40,692	1,308	90,242	$78,064

Definitions:

Notional Value: represents the volume of outstanding contracts. It does not represent cash flows.

Swap: a legal arrangement the effect of which is that each of the parties (the counterparties) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Forward foreign exchange contracts: an agreement between two parties to set exchange rates in advance.

Forward rate agreement (FRA): an agreement between two parties to set future borrowing lending rates in advance.

Future: a contract that confers an obligation to buy/sell a commodity with a specified price and amount, on a future date.

Option: a contract that confers a right but not the obligation to buy/sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a fixed future period.

II Schedule of Outstanding Debt Incurred by the Province of Ontario

Interim as at March 31, 1997

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			

Debt Issued for Provincial Purposes

(A) PAYABLE IN CANADA IN CANADIAN DOLLARS

NON-PUBLIC DEBT

To Minister of Finance of Canada

Canada Pension Plan Investment Fund:

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
Year ending March 31						
1998	1978	CPP	8.77 to 9.37	851,058,000	851,058,000	
1999	1979	CPP	9.35 to 10.16	915,916,000	915,916,000	
2000	1980	CPP	9.98 to 12.74	987,943,000	987,943,000	
2001	1981	CPP	12.50 to 13.39	537,872,000	537,872,000	
2002	1982	CPP	13.66 to 16.10	768,736,000	768,736,000	
2003	1983	CPP	12.01 to 16.53	1,235,751,000	1,235,751,000	
2004	1984	CPP	10.92 to 12.14	1,200,847,000	1,200,847,000	
2005	1985	CPP	12.08 to 14.06	1,133,182,000	1,133,182,000	
2006	1986	CPP	10.58 to 12.57	1,213,502,000	1,213,502,000	
2007	1987	CPP	9.36 to 10.17	232,269,000	232,269,000	
2008	1988	CPP	10.79	42,300,000	42,300,000	
2012	1992	CPP	9.81 to 10.04	987,249,000	987,249,000	
2013	1993	CPP	9.17 to 9.45	700,137,000	700,137,000	
					10,806,762,000	(5)

The *Municipal Works Assistance Act*:

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
Year ending March 31						
1998-1999	1966-1969	MW	5.25 to 5.625	3,887,397	51,082	(1) (8)
					51,082	
Total to Minister of Finance of Canada					10,806,813,082	

Date of Maturity	Date of Issue	Series	Interest Rate %	Original Issue	Outstanding	References
To Ontario Teachers' Pension Fund:						
1998	1973-1991	TI	7.86 to 14.57	226,553,824	226,553,824	
1999	1979-1991	TI	9.51 to 12.73	609,888,869	609,888,869	
2000	1975-1991	TI	8.39 to 13.13	960,288,107	960,288,107	
2001	1981-1991	TI	11.05 to 11.10	717,238,319	717,238,319	
2002	1977-1991	TI	9.54 to 10.11	492,524,321	492,524,321	
2003	1978-1991	TI	9.82 to 10.53	655,570,855	655,570,855	
2004	1982-1984	TI	12.88 to 13.34	900,000,000	900,000,000	
2005	1984-1991	TI	12.60 to 13.27	821,000,000	821,000,000	
2006	1985-1991	TI	11.07 to 14.40	1,070,000,000	1,070,000,000	
2007	1985-1991	TI	10.26 to 13.01	1,185,000,000	1,185,000,000	
2008	1983-1991	TI	10.15 to 15.38	1,945,000,000	1,945,000,000	
2009	1986-1991	TI	10.98 to 11.50	1,465,000,000	1,465,000,000	
2010	1986-1991	TI	10.22 to 11.24	1,236,000,000	1,236,000,000	
2011	1987	TI	10.11 to 10.32	560,000,000	560,000,000	
2012	1988-1991	TI	10.68 to 11.24	580,000,000	580,000,000	
2013	1989-1991	TI	11.06 to 11.31	625,000,000	625,000,000	
					14,049,064,295	(1)
To Ontario Municipal Employees Retirement Fund:						
1998	1996	MER	6.30	24,779,292	24,779,292	
1999	1996	MER	7.21	31,251,467	31,251,467	
2000	1996	MER	8.19	43,849,567	43,849,567	
2001	1996	MER	9.10	52,494,948	52,494,948	
2002	1996	MER	7.85	67,500,000	67,500,000	
2003	1996	MER	8.02 to 10.28	235,259,824	235,259,824	
2004	1996	MER	9.45	163,695,000	163,695,000	
2007	1996	MER	9.77	102,675,000	102,675,000	
					721,505,098	(1)(38)
To Colleges of Applied Arts & Technology Pension Plan:						
Year ending March 31						
1998	1996	CAAT	6.300	120,708	120,708	
1999	1996	CAAT	7.210	1,848,533	1,848,533	
2000	1996	CAAT	8.190	2,850,433	2,850,433	
2001	1996	CAAT	9.100	5,105,052	5,105,052	
2002	1996	CAAT	7.850	7,500,000	7,500,000	
2003	1996	CAAT	8.020 to 10.280	30,540,176	30,540,176	
2004	1996	CAAT	9.450	24,255,000	24,255,000	
2007	1996	CAAT	9.770	18,625,000	18,625,000	
					90,844,902	(1) (38)

Date of Maturity	Date of Issue	Series	Interest Rate %	Original Issue	Outstanding	References
To Ryerson Retirement Pension Plan:						
Year ending March 31						
1998	1995	RRPF	9.51	195,055	195,055	
1999	1995	RRPF	10.07	455,954	455,954	
2000	1995	RRPF	11.53	494,883	494,883	
2001	1995	RRPF	13.40	586,257	586,257	
2002	1995	RRPF	16.95	732,095	732,095	
2003	1995	RRPF	14.65	926,036	926,036	
2004	1995	RRPF	12.78	1,081,061	1,081,061	
2005	1995	RRPF	13.33	1,229,597	1,229,597	
2006	1995	RRPF	11.16	1,464,199	1,464,199	
2007	1995	RRPF	9.64	1,618,485	1,618,485	
					8,783,622	(1)
To Canada Mortgage and Housing Corporation:						
Year ending March 31						
1998-2003	1971 to 1978	CMHC	5.375	688,415	238,340	
1998-2004	1974 to 1975	CMHC	5.125 to 7.875	1,296,489	563,058	
1998-2005	1971 to 1975	CMHC	5.125 to 8.625	2,754,646	1,330,466	
1998-2006	1973 to 1976	CMHC	5.125 to 10.375	2,200,837	1,334,644	
1998-2007	1974 to 1977	CMHC	5.375 to 10.375	6,049,712	3,931,915	
1998-2010	1970 to 1975	CMHC	5.75 to 6.875	4,312,601	2,529,380	
1998-2011	1971 to 1976	CMHC	5.375 to 8.25	5,876,136	4,065,320	
1998-2012	1972	CMHC	6.875 to 8.25	7,281,714	5,133,998	
1998-2013	1973	CMHC	7.25 to 8.25	1,252,053	925,267	
1998-2014	1974	CMHC	6.125 to 8.25	19,734,125	14,763,195	
1998-2015	1975	CMHC	7.50 to 10.375	11,488,523	8,948,832	
1998-2016	1976	CMHC	5.375 to 10.75	22,775,312	18,549,806	
1998-2017	1977	CMHC	7.625 to 10.75	15,797,368	13,429,843	
1998-2018	1977 to 1978	CMHC	7.625 to 13.00	38,133,367	33,669,518	
1998-2019	1977 to 1980	CMHC	7.625 to 15.25	41,958,001	37,774,375	
1998-2020	1978 to 1980	CMHC	7.625 to 15.75	65,976,661	59,987,360	
1998-2021	1981	CMHC	9.50 to 15.75	30,946,135	28,541,408	
1998-2022	1982	CMHC	9.75 to 15.75	1,177,064	1,110,324	
					236,827,049	(7)
Canada Mortgage and Housing Corporation (CMHC) Section 40 Debt:						
1998-2002	1982	CMHC	7.099	36,967,243	14,470,770	(7)
					251,297,819	(2)

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			
To Public Service Pension Fund:						
Year ending March 31						
1998	1995	OPB	6.00 to 9.34	87,609,022	43,804,511	
1999	1995	OPB	8.06 to 14.71	91,422,347	91,422,347	
2000	1995	OPB	8.39 to 10.17	63,392,463	63,392,463	
2001	1995	OPB	10.04 to 11.61	76,021,114	76,021,114	
2002	1995	OPB	10.10 to 13.48	102,297,560	102,297,560	
2003	1995	OPB	9.81 to 17.11	129,210,911	129,210,912	
2004	1995	OPB	9.50 to 14.81	135,216,734	135,216,734	
2005	1995	OPB	9.82 to 12.89	161,250,034	161,250,034	
2006	1995	OPB	11.05 to 13.48	173,091,180	173,091,180	
2007	1995	OPB	11.16 to 13.47	189,729,593	189,729,593	
2008	1995	OPB	15.38 to 15.51	219,477,038	219,477,038	
2009	1995	OPB	12.79 to 12.89	265,862,487	265,862,487	
2010	1995	OPB	12.88 to 13.02	275,065,772	275,065,772	
2011	1995	OPB	13.33 to 13.48	284,438,456	284,438,456	
2012	1995	OPB	11.55 to 11.67	337,944,621	337,944,621	
2013	1995	OPB	10.38 to 10.40	376,390,480	376,390,480	
2014	1995	OPB	11.10 to 11.19	411,767,291	411,767,291	
2015	1995	OPB	11.19 to 11.31	453,239,493	453,239,493	
					3,789,622,086	(1)(23)
To Public Service Employees' Union Pension Fund:						
Year ending March 31						
1998	1995	OPPT	6.00 to 9.34	40,963,068	20,481,534	
1999	1995	OPPT	8.06 to 14.71	42,746,052	42,746,052	
2000	1995	OPPT	8.39 to 10.17	29,640,210	29,640,209	
2001	1995	OPPT	10.04 to 11.61	35,544,947	35,544,947	
2002	1995	OPPT	10.10 to 13.48	47,830,940	47,830,940	
2003	1995	OPPT	9.81 to 17.11	60,414,729	60,414,729	
2004	1995	OPPT	9.50 to 14.81	63,222,852	63,222,852	
2005	1995	OPPT	9.82 to 12.89	75,395,158	75,395,158	
2006	1995	OPPT	11.05 to 13.48	80,931,685	80,931,685	
2007	1995	OPPT	11.16 to 13.47	88,711,254	88,711,254	
2008	1995	OPPT	15.38 to 15.51	102,620,170	102,620,170	
2009	1995	OPPT	12.79 to 12.89	124,308,466	124,308,466	
2010	1995	OPPT	12.88 to 13.02	128,611,616	128,611,616	
2011	1995	OPPT	13.33 to 13.48	132,993,972	132,993,972	
2012	1995	OPPT	11.55 to 11.67	158,011,676	158,011,676	
2013	1995	OPPT	10.38 to 10.40	175,987,683	175,987,683	
2014	1995	OPPT	11.10 to 11.19	192,528,704	192,528,704	
2015	1995	OPPT	11.19 to 11.31	211,919,728	211,919,728	
					1,771,901,375	(1)(23)
TOTAL NON-PUBLIC DEBT					31,489,832,279	

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			
			(A) PAYABLE IN CANADA IN CANADIAN DOLLARS			
PUBLICLY HELD DEBT						
Apr. 16, 1997	Nov. 19, 1991	GZ	8.75	1,500,000,000	1,500,000,000	(1)
Aug. 27, 1998	Aug. 27, 1991	GU	10.20	500,000,000	500,000,000	(1)
Jan. 10, 2001	Jan. 10, 1991	GH	10.875	1,050,000,000	1,050,000,000	(1)
Dec. 12, 2001	Aug. 12, 1991	GS	10.50	600,000,000	600,000,000	(1)
Feb. 4, 2002	Feb. 4, 1997	KP	6.05	125,000,000	125,000,000	(1) (47)
Mar. 11, 2003	Mar. 11, 1993	HK	8.00	1,500,000,000	1,500,000,000	(1)
Apr. 22, 2003	Dec. 29, 1992	HG	8.75	750,000,000	750,000,000	(1)
Dec. 8, 2003	July 20, 1993	HM	7.75	1,250,000,000	1,250,000,000	(1)
Sept. 15, 2004	June 21, 1994	HU	9.00	1,450,000,000	1,450,000,000	(1)
Oct. 12, 2005	Oct. 12, 1995	JR	8.95	65,000,000	65,000,000	(45)
Oct. 27, 2005	Oct. 27, 1995	JS	9.00	55,000,000	55,000,000	(44)
Dec. 1, 2005	Sept. 13, 1995	JP	8.25	1,000,000,000	1,000,000,000	(1)
Jan. 19, 2006	Jan. 19, 1996	JV	7.50	1,250,000,000	1,250,000,000	(1)
Feb. 20, 2006	Feb. 20, 1996	JZ	0.00-17.25	107,000,000	107,000,000	(40) (1)
July 24, 2006	July 24, 1996	KE	7.75	600,000,000	600,000,000	(1)
Jan. 12, 2007	Jan. 12, 1995	JF	9.50	200,000,000	200,000,000	(21) (1)
Oct. 17, 2008	Oct. 17, 1996	KH	6.75-9.375	65,000,000	65,000,000	(3)
Feb. 18, 2013	Feb. 18, 1993	HJ	9.24	250,000,000	250,000,000	(1)
July 13, 2022	July 13, 1992	HC	9.50	1,850,000,000	1,850,000,000	(1)
Sept. 8, 2023	Sept. 8, 1993	HP	8.10	1,350,000,000	1,350,000,000	(1)
Feb. 7, 2024	Feb. 7, 1994	HS	7.50	1,250,000,000	1,250,000,000	(1)
June 2, 2025	Dec. 20, 1994	JE	9.50	500,000,000	500,000,000	(1)
Dec. 2, 2025	Oct. 5, 1995	JQ	8.50	1,000,000,000	1,000,000,000	(1)
Feb. 6, 2026	Feb. 6, 1996	JY	8.00	50,000,000	50,000,000	(1)
June 2, 2026	Dec. 21, 1995	JU	8.00	1,000,000,000	1,000,000,000	(1)
Dec. 2, 2026	Dec. 2, 1996	KL	4.35-7.04	162,000,000	162,000,000	(48)
Dec. 2, 2026	Feb. 13, 1997	KR	8.00	75,000,000	75,000,000	(49)
Feb. 3, 2027	Feb. 3, 1997	KM	7.50	150,000,000	150,000,000	(50)
Feb. 3, 2027	Feb. 21, 1997	KS	6.95	100,000,000	100,000,000	(51)
June 2, 2027	Oct. 7, 1996	KJ	7.60	500,000,000	500,000,000	(1)
Jan. 13, 2031	Sept. 8, 1995	JN	9.50	125,000,000	125,000,000	(1)
Nov. 3, 2034	Nov. 3, 1994	HY	9.75	280,000,000	280,000,000	(1)
Jan. 10, 1995 to Jan. 10, 2035	Nov. 30, 1994	HZ	9.4688	189,616,626	153,840,130	(24)
"	Nov. 30, 1994	JA	9.4688	24,766,559	24,766,559	(24)
"	Nov. 30, 1994	JB	9.4688	8,482,324	8,482,324	(24)
"	Nov. 30, 1994	JC	9.4688	4,764,354	4,764,354	(24)
"	Nov. 30, 1994	JD	9.4688	3,171,134	3,171,134	(24)
Feb. 8, 2035	Feb. 8, 1995	JJ	9.875	73,000,000	73,000,000	(19)
June 20,2036	June 20, 1996	KC	8.250	88,000,000	88,000,000	(1)
June 20,2036	July 17, 1996	KC	8.250	123,000,000	123,000,000	(1)
June 20,2038	Sept. 16.1996	KG	8.100	120,000,000	120,000,000	(1)
Jan. 10, 2045	May 25, 1995	JL	8.39	35,531,176	35,531,176	(41) (1)
Mar. 1, 2045	Mar. 1, 1995	JK	9.500	150,000,000	150,000,000	(20)
					21,493,555,677	
TREASURY BILLS					2,207,944,000	

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			
ONTARIO SAVINGS BONDS						
Mar. 1, 2000	Mar. 1, 1995	Annual	Floating	789,297,500	750,620,200	(29)
Mar. 1, 2000	Mar. 1, 1995	Compound	Floating	817,902,500	752,283,200	(30)
June 21, 2001	June 21, 1996	Annual	Step-Up	279,438,300	277,082,100	(61) (62)
June 21, 2001	June 21, 1996	Compound	Step-Up	337,230,000	333,135,100	(61) (62)
June 21, 2001	June 21, 1996	Annual	Variable	220,323,600	188,116,300	(61) (63)
June 21, 2001	June 21, 1996	Compound	Variable	194,594,700	167,447,200	(61) (63)
					2,468,684,100	(1)
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS					26,170,183,777	
(B) PAYABLE IN EUROPE IN CANADIAN DOLLARS						
Apr. 19, 1998	Apr. 19, 1991	GP	10.25	500,000,000	500,000,000	
July 15, 1998	July 15, 1991	GR	10.625	500,000,000	500,000,000	
July 22,1999	July 22, 1996	EMTN020	6.25	100,000,000	100,000,000	
Apr. 5, 2001	Feb. 22, 1996	JW	6.23	510,125,000	510,125,000	(42)
Oct. 29, 2001	Oct. 29, 1991	GX	9.75	750,000,000	750,000,000	
Sept. 27, 2005	Sept. 27, 1993	HQ	7.25	500,000,000	500,000,000	
July 13, 2034	July 13, 1994	EMTN005	9.40	300,000,000	300,000,000	
TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS					3,160,125,000	(1)
LESS: REPURCHASED BY THE PROVINCE						
Apr. 19, 1998	Apr. 19, 1991	GP	10.25	37,000,000	(37,000,000)	
NET PAYABLE IN EUROPE IN CANADIAN DOLLARS					3,123,125,000	
(C) PAYABLE IN CANADA IN U.S. DOLLARS						
Oct. 1, 1997	Oct. 1, 1992	HE	5.70	2,000,000,000	2,000,000,000	
Aug. 17, 1999	Feb. 17, 1994	HT	Floating	2,000,000,000	2,000,000,000	(34)
Jan. 27, 2003	Jan. 27, 1993	HH	7.375	3,000,000,000	3,000,000,000	
June 22, 2004	June 22, 1994	HV	7.625	1,000,000,000	1,000,000,000	
April 24, 2005	April 24, 1995	DMTN01	Floating	100,000,000	100,000,000	(35)
May 1, 2005	May 1, 1995	DMTN02	Floating	100,000,000	100,000,000	(35)
May 9, 2005	May 9, 1995	DMTN03	Floating	100,000,000	100,000,000	(35)
May 16, 2005	May 16, 1995	DMTN04	Floating	100,000,000	100,000,000	(35)
Aug. 4, 2005	Aug. 4, 1995	JM	7.00	1,000,000,000	1,000,000,000	
TOTAL PAYABLE IN CANADA IN U.S. DOLLARS					9,400,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.31748					12,384,295,000	(9)
(D) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS						
June 28, 2000	June 28, 1993	HL	6.125	2,000,000,000	2,000,000,000	
Oct. 17, 2001	Oct. 17, 1991	GY	8.00	750,000,000	750,000,000	
June 4, 2002	June 4, 1992	HB	7.75	2,000,000,000	2,000,000,000	
Feb 21, 2006	Feb. 21, 1996	KA	6.00	1,500,000,000	1,500,000,000	
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS					6,250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.27612					7,975,753,000	(10)
(E) COMMERCIAL PAPER IN U.S. DOLLARS					0	

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			
			(F) PAYABLE IN EUROPE IN U.S. DOLLARS			
Aug. 27, 1998	Aug. 27, 1993	EMTN001	5.125	300,000,000	241,800,000	(1) (39)
Jan. 27, 1999	Jan. 27, 1992	HA	7.00	1,000,000,000	1,000,000,000	(1)
Nov. 18,1999	Nov. 18,1996	EMTN027	5.875	60,000,000	60,000,000	(1)
Dec. 17,1999	Dec. 17, 1996	EMTN030	6.00	¥5,000,000,000	44,648,800	(1) (52)
Jan. 27,2000	Jan. 30, 1997	EMTN032	5.60	70,000,000	70,000,000	(1)
Nov. 7, 2000	Nov. 7, 1995	EMTN018	5.75	200,000,000	200,000,000	(1)
Feb. 28, 2001	Feb. 28, 1991	GL	8.50	600,000,000	600,000,000	(1)
Jan. 10, 2002	Jan. 10, 1997	EMTN031	Floating	50,000,000	50,000,000	(1) (53)
TOTAL PAYABLE IN EUROPE IN U.S. DOLLARS					2,266,448,800	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $1.19801					2,715,218,280	(11)
			(G) PAYABLE IN EUROPE IN POUNDS STERLING			
Sept. 15, 2000	Sept. 15, 1993	HN	6.875	255,000,000	255,000,000	
Feb. 14, 2001	Feb. 14, 1991	GK	11.125	100,000,000	100,000,000	
July 30, 2002	July 30, 1992	HD	9.375	200,000,000	200,000,000	
TOTAL PAYABLE IN EUROPE IN POUNDS STERLING					555,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $2.11712					1,175,000,000	(12)
			(H) PAYABLE IN EUROPE IN SWISS FRANCS			
June 29, 2001	Mar. 29, 1996	KB	4.00	250,000,000	250,000,000	
Jan. 27, 2003	Jan. 27, 1993	HF	6.25	400,000,000	400,000,000	
TOTAL PAYABLE IN EUROPE IN SWISS FRANCS					650,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $1.10691					719,489,141	(13)
			(I) PAYABLE IN JAPAN IN JAPANESE YEN			
Jan. 28, 2003	Jan. 28, 1993	YL	5.50	10,000,000,000	10,000,000,000	(1)
Mar. 24, 2003	Mar. 22, 1993	YL	4.80	7,000,000,000	7,000,000,000	(1)
Aug. 25, 2003	Aug. 25, 1993	YL	Floating	10,000,000,000	10,000,000,000	(1) (4)
Sept. 22, 2003	Sept. 22, 1993	YL	5.20	10,000,000,000	10,000,000,000	(1)
July 6, 2004	July 6, 1994	YL	4.40	10,000,000,000	10,000,000,000	(1)
July 21, 2004	July 21, 1994	YL	4.53	10,000,000,000	10,000,000,000	(1)
July 28, 2004	July 27, 1994	YL	4.55	7,000,000,000	7,000,000,000	(22)
Sept. 8, 2004	Sept. 7, 1994	YL	4.71	7,000,000,000	7,000,000,000	(1)
Oct. 25, 2004	Oct. 25, 1994	YL	5.00	10,000,000,000	10,000,000,000	(1)
Dec. 20, 2004	Dec. 20, 1994	YL	4.80	5,000,000,000	5,000,000,000	(1)
Aug. 31, 2005	Aug. 31, 1995	YL	3.10	25,000,000,000	25,000,000,000	(1)
Mar. 16,2007	Mar. 18,1997	KU	3.10	5,000,000,000	5,000,000,000	(1) (54)
Mar. 16,2007	Mar. 18,1997	KV	3.25	15,000,000,000	15,000,000,000	(1) (55)
TOTAL PAYABLE IN JAPAN IN JAPANESE YEN					131,000,000,000	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $0.01304					1,708,285,919	(14)

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			
			(J) PAYABLE IN EUROPE IN JAPANESE YEN			
Jan. 28, 1999	Jan. 28, 1994	EMTN002	Floating	10,000,000,000	10,000,000,000	(27)
May 27, 1999	May 27, 1994	EMTN003	Floating	10,000,000,000	10,000,000,000	(31)
Sept. 20, 1999	Sept. 20, 1994	EMTN010	4.24	10,000,000,000	10,000,000,000	
Sept. 21, 1999	Sept. 26, 1994	EMTN011	4.43	10,000,000,000	10,000,000,000	
Nov. 18,1999	Nov. 18,1996	EMTN028	5.15	10,000,000,000	10,000,000,000	
Nov. 29, 1999	Nov. 29, 1994	EMTN013	4.50	2,000,000,000	2,000,000,000	
Jan. 25, 2000	Jan. 30, 1995	EMTN014	Floating	10,000,000,000	10,000,000,000	(28)
July 5, 2000	July 5, 1996	EMTN019	2.05	5,000,000,000	5,000,000,000	
Sept. 19, 1996	Sept. 19, 1996	EMTN023	Floating	5,000,000,000	5,000,000,000	(56)
Sept. 26,2000	Sept. 26,1996	EMTN024	Floating	5,000,000,000	5,000,000,000	(56)
June 20, 2001	July 11, 1994	HW	4.40	100,000,000,000	100,000,000,000	
July 12, 2001	July 12, 1994	EMTN006	3.90	5,000,000,000	5,000,000,000	(32)
Nov. 10, 2001	Nov. 10, 1994	EMTN012	4.75	3,000,000,000	3,000,000,000	
Mar. 15, 2005	Mar. 15, 1995	EMTN015	6.00	2,000,000,000	2,000,000,000	(33)
Aug. 29,2006	Aug. 9, 1996	EMTN021	4.28	10,000,000,000	10,000,000,000	(57)
Sept. 8, 2015	Sept. 7, 1995	EMTN016	5.50	10,000,000,000	10,000,000,000	(37)
Sept. 18, 2015	Sept. 18, 1995	EMTN017	5.65	10,000,000,000	10,000,000,000	(36)
TOTAL PAYABLE IN EUROPE IN JAPANESE YEN					217,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $0.01466					3,181,500,933	(15)
			(K) PAYABLE IN EUROPE IN DEUTSCHE MARKS			
Jan. 27, 2000	Jan. 27, 1995	JH	Floating	500,000,000	500,000,000	(46)
Feb. 15, 2001	Feb. 15, 1996	JX	5.00	500,000,000	500,000,000	
Jan. 13, 2004	Jan. 13, 1994	HR	6.25	1,500,000,000	1,500,000,000	
TOTAL PAYABLE IN EUROPE IN DEUTSCHE MARKS					2,500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $0.89250					2,231,254,639	(16)
			(L) PAYABLE IN EUROPE IN NETHERLANDS GUILDERS			
Sept. 27, 2004	Sept. 27, 1994	HX	7.75	500,000,000	500,000,000	
TOTAL PAYABLE IN EUROPE IN NETHERLANDS GUILDERS					500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $0.77542					387,710,000	(17)
			(M) PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS			
Nov. 9, 1998	Nov. 9, 1995	JT	5.00	600,000,000	600,000,000	
Nov. 18, 1999	Nov. 18,1996	EMTN026	5.72	¥7,000,000,000	79,293,060	(58)
Oct 15, 2001	Oct. 15,1996	EMTN025	5.00	125,000,000	125,000,000	
TOTAL PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS					804,293,060	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $0.95643					769,247,496	(18)

Date of Maturity	Date of Issue	Series	Interest Rate %	Original Issue	Outstanding	References
			(N) PAYABLE IN JAPAN IN AUSTRALIAN DOLLARS			
Nov. 13, 1998	Nov. 13, 1996	KK	5.20	¥30,000,000,000	333,333,333	(59)
Aug. 26, 1999	Aug. 29,1996	KF	6.00	¥25,000,000,000	296,278,739	(60)
TOTAL PAYABLE IN JAPAN IN AUSTRALIAN DOLLARS					629,612,072	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $1.06850					672,897,495	(64)
			(O) PAYABLE IN EUROPE IN FRENCH FRANCS			
July 29, 2008	July 29, 1996	KD	6.875	3,000,000,000	3,000,000,000	
TOTAL PAYABLE IN EUROPE IN FRENCH FRANCS					3,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $0.26581					797,421,719	(65)
			(P) PAYABLE IN EUROPE IN NORWEGIAN KRONER			
Dec. 29, 2004	Sept. 12, 1996	EMTN022	7.000	300,000,000	300,000,000	
TOTAL PAYABLE IN EUROPE IN NORWEGIAN KRONER					300,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $0.21235					63,704,048	(66)
			(Q) PAYABLE IN EUROPE IN NEW ZEALAND DOLLARS			
Nov. 24, 1998	Nov. 20, 1996	EMTN029	7.150	100,000,000	100,000,000	
TOTAL PAYABLE IN EUROPE IN NEW ZEALAND DOLLARS					100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE of $0.95260					95,259,671	(67)
TOTAL PUBLICLY HELD DEBT INCURRED BY PROVINCE FOR PROVINCIAL PURPOSES					64,170,346,118	
TOTAL DEBT INCURRED BY PROVINCE FOR PROVINCIAL PURPOSES					95,660,178,397	

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			

Debt Issued by Government Service Organizations

(A) PAYABLE IN CANADA IN CANADIAN DOLLARS

To Minister of Finance of Canada
Canada Pension Plan Investment Fund:

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
Year ending March 31						
2009	1989	CPP	9.15 to 10.31	310,439,000	310,439,000	
2010	1990	CPP	9.78 to 11.33	920,001,000	920,001,000	
2011	1991	CPP	9.81 to 9.86	62,000,000	62,000,000	
2012	1992	CPP	9.00 to 9.45	30,900,000	30,900,000	
					1,323,340,000	(5)

To Canada Mortgage and Housing Corporation:

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
Year ending March 31						
1998	N/A	CMHC	5.3750		14,381	
1999	N/A	CMHC	5.3750		68,558	
2003	N/A	CMHC	5.1250		17,539	
2004	N/A	CMHC	5.2068		60,766	
2005	N/A	CMHC	5.1250		44,306	
2006	N/A	CMHC	4.2500		109,631	
2007	N/A	CMHC	4.6739		445,158	
2008	N/A	CMHC	5.8750		310,454	
2009	N/A	CMHC	5.3750		239,501	
2010	N/A	CMHC	6.4598		1,125,218	
2011	N/A	CMHC	6.4159		9,773,767	
2012	N/A	CMHC	5.2994		494,894	
2013	N/A	CMHC	5.3750		7,152,121	
2014	N/A	CMHC	5.6206		21,107,524	
2015	N/A	CMHC	5.8220		19,013,591	
2016	N/A	CMHC	6.1388		50,566,711	
2017	N/A	CMHC	6.2491		77,246,137	
2018	N/A	CMHC	7.1327		62,205,075	
2019	N/A	CMHC	5.875 to 7.6159		66,018,699	
2020	N/A	CMHC	5.750 to 7.850		218,302,323	
2021	N/A	CMHC	6.875 to 7.5596		109,179,593	
2022	N/A	CMHC	7.740 to 8.250		105,480,785	
2023	N/A	CMHC	6.875 to 8.625		87,746,894	
2024	N/A	CMHC	7.625 to 7.750		73,913,623	
2025	N/A	CMHC	7.7400		57,709,384	
2026	N/A	CMHC	7.7400		24,138,143	
2027	N/A	CMHC	7.7400		24,415,651	
2028	N/A	CMHC	7.7400		3,687,335	
					1,020,587,762	(7)

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			
1998 to 2001	N/A	Various Mortgages	Various	N/A	35,138,815	(25)
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS					2,379,066,577	
(B) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS						
July 1, 2006	Mar 31, 1994	Collateralized financing	7.261 to 7.395	311,866,966	314,986,977	(26)
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS					314,986,977	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.37597....................................					433,412,894	(43)
TOTAL DEBT ISSUED BY GOVERNMENT SERVICE ORGANIZATIONS FOR PROVINCIAL PURPOSES					2,812,479,471	
TOTAL DEBT INCURRED FOR PROVINCIAL PURPOSES					**98,472,657,868**	

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			

Debt Issued for Ontario Hydro

(A) PAYABLE IN CANADA IN CANADIAN DOLLARS

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
NON-PUBLIC DEBT						
Canada Pension Plan Investment Fund						
2001	1981	CPP	11.61 to 13.46	500,000,000	500,000,000	
2002	1982	CPP	14.81 to 17.51	500,000,000	500,000,000	
2007	1987	CPP	9.64	119,000,000	119,000,000	
2008	1988	CPP	9.13 to 9.72	388,715,000	388,715,000	
2009	1989	CPP	9.62 to 10.31	589,319,000	589,319,000	
2010	1990	CPP	9.61 to 10.31	650,712,000	650,712,000	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS					2,747,746,000	(5)

(B) PAYABLE IN NEW YORK IN U.S. DOLLARS

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
PUBLICLY HELD DEBT						
Aug. 31, 2012	Aug. 31, 1982	FY	15.25	100,000,000	90,500,000	
Mar. 10, 2013	Mar. 10, 1983	GB	11.50	100,000,000	95,775,000	
Apr. 25, 2013	Apr. 25, 1983	GD	11.75	100,000,000	97,215,000	
TOTAL PAYABLE IN NEW YORK IN U.S. DOLLARS					283,490,000	(6)
CANADIAN DOLLAR EQUIVALENT AT MARCH 31, 1997 EXCHANGE RATE of $1.38430					392,435,207	
TOTAL DEBT INCURRED BY PROVINCE FOR ONTARIO HYDRO					3,140,181,207	
TOTAL DEBT INCURRED FOR PROVINCIAL PURPOSES AND ONTARIO HYDRO					101,612,839,075	

References:

(1) Non-callable.

(2) Liability to Canada Mortgage and Housing Corporation assumed by the Ministry of Finance upon the dissolution of Ontario Land Corporation.

(3) Callable, in whole but not in part, on October 17 in each year from 1999 to 2007 at par. Interest payable is 6.75% for the first 4 years, 7.25% in years five and six, 8% in year seven, 8.25% in year eight, 8.75% in year nine, 9% in year ten, 9.25% in year eleven, and 9.375% in year twelve.

(4) Interest payable is 6 month Yen LIBOR.

(5) Securities sold to the Canada Pension Plan Investment Fund are payable 20 years after their respective dates of issue, are not negotiable and not transferable or assignable but are redeemable, in whole or in part, before maturity at the option of the Minister of Finance of Canada, on six months' prior notice, when the Minister deems it necessary in order to meet the requirements of the Canada Pension Plan. In the case of redemption before maturity, the Ontario Securities are to be redeemed in the order in which they were issued and the amount of Ontario Securities to be redeemed at any time shall be proportionate to the amount of all securities then held to the credit of the said fund represented by Ontario Securities.

(6) Callable 15-25 years after date of issue at various declining premiums and thereafter at par.

(7) The terms of these debentures require that equal payments to be made each year until their maturity. Each payment consists of blended principal and interest.

(8) The terms of these debentures require that equal payments be made each year for a period, after which, the payments decline and remain constant for another period. The decline in payments may happen more than once during the term of the debenture. Each payment consists of blended principal and interest.

(9) The Province entered into currency exchange agreements which effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.31748. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.40% and 6.43% on $9,662 million and USD 500 million respectively, and floating Canadian BA rate on $2,723 million; offset in part by the receipt of floating U.S. LIBOR rate on USD 500 million.

(10) The Province entered into currency exchange agreements which effectively converted all but USD 225 million of these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.27208. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on all of this debt to a fixed rate of 8.08% .

(11) The Province entered into currency exchange agreements which effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.19801. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 9.07% and 6.07% on $2,676 million and USD 70 million, respectively and floating Canadian BA rate on $40 million; offset in part by the receipt of floating US LIBOR rate on USD 70 million.

(12) The Province entered into currency exchange agreements which effectively converted these Pounds Sterling obligations to Canadian Dollar obligations at an exchange rate of 2.11712. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.35%.

(13) The Province entered into currency exchange agreements which effectively converted these Swiss Franc obligations to Canadian Dollar obligations at an exchange rate of 1.10691. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.79% on $436 million and floating Canadian BA rate on $283 million.

(14) The Province entered into currency exchange agreements which effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.01304. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.73% on $1,550 million, and floating Canadian BA rate and Yen LIBOR rate on $199 million and JPY 27 billion, respectively; offset in part by the receipt of floating U.S. LIBOR rate on USD 259 million.

(15) The Province entered into currency exchange agreements which effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.01466. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.74% on $2,830 million, and floating Canadian BA rate and Yen LIBOR rate on $149 million and JPY 45 billion, respectively; offset in part by the receipt of floating U.S. LIBOR rate on USD 243 million.

(16) The Province entered into currency exchange agreements which effectively converted these Deutsche Mark obligations to Canadian Dollar obligations at an exchange rate of 0.89250. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.00% on $1,761 million and floating Canadian BA rate on $470 million.

(17) The Province entered into currency exchange agreements which effectively converted these Netherlands Guilder obligations to Canadian Dollar obligations at an exchange rate of 0.77542. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.44%.

(18) The Province entered into currency exchange agreements which effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.95643. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 6.55% on $564 million and floating Canadian BA rate on $205 million.

(19) Retractable, in whole or in part, on February 8, 2007, at the holder's option, provided that the notice of retraction is made during the period from July 15, 2006 to January 15, 2007 inclusive. Such election is irrevocable.

(20) Retractable, in whole or in part, on March 1, 2010, at the holder's option, provided that the notice of retraction is made during the period from March 1, 1995 to February 12, 2010 inclusive. Such election is irrevocable.

(21) Exchangeable at any time, in whole or in part, at the holder's option, for an equivalent principal amount of Series JG 9.50% bonds due January 12, 2035.

(22) Callable in full, and not in part, on July 27, 2001, at par.

(23) The terms of these debentures require that the principal be repaid in twelve equal monthly payments in the year preceding the date of maturity.

(24) The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals. At January 10, 2035, the principal to be repaid on each debenture will be $2.3 million.

(25) The Ontario Housing Corporation borrows funds from private sector to finance investments in real property. These mortgages are expected to be repaid over a period of 35 years and are normally renewed for a term of 3 to 5 years. Interest payable at various rates based on individual agreements - weighted average rate of 7.5%.

(26) On March 4, 1994 substantially all of the locomotives and bi-level cars of the Toronto Area Transit Authority ("TATOA") were sold for USD 311,867 and immediately repurchased from the same counterparty at the same price under conditional sales contracts maturing on July 1, 2006. The transaction has been accounted for as a collateralized financing. The debt is collateralized by the locomotives and bi-level cars. TATOA retains the right to use the locomotives and bi-level cars, and is liable for maintenance and all other associated obligations. TATOA cannot lease or sell the locomotives and bi-level cars without the prior written consent of the counterparty to the debt obligation. In addition, TATOA is liable for any costs which reduce the counterpary's return on the financing.

(27) Interest payable is 6-month Yen LIBOR + .2%, with a minimum rate of 3.0% and a maximum rate of 4.5%.

(28) Interest payable is 12 month Yen LIBOR + .3%.

(29) Redeemable at the option of the holder on March 1 or September 1 or upon the death of the beneficial owner. The bonds are transferrable, provided the new beneficial owner meets the eligibility requirements. The Minister of Finance may reset the interest rate from time to time prior to maturity. The initial interest rate on these Bonds is 8.0%. The minimum interest rate payable is 8.0% and 7.0% in year one and years 2 - 3 respectively. Effective March 1, 1996 the interest rate was set at 7.0% and remained at 7.0% on March 31, 1997.

(30) Redeemable at the option of the holder on March 1 or September 1 or upon the death of the beneficial owner. The bonds are transferrable, provided the new beneficial owner meets the eligibility requirements. The bonds may be exchanged anytime, except the period February 14 to March 1 annually, for an equivalent principal amount of Annual Interest Bonds. The Minister of Finance may reset the interest rate from time to time prior to maturity. The initial interest rate on these Bonds is 8.0%. The minimum interest rate payable is 8.0% and 7.0% in year one and years 2-3 respectively. Effective March 31, 1996 the interest rate was set at 7.0% and remained at 7.0% on March 31, 1997.

(31) Interest payable is 4.5% to May 27, 1996, then 1.0% +5 times (YEN 7-year Swap rate minus YEN 3-month LIBOR minus 1.28%) to maturity, with a minimum of 1.0%.

(32) Interest is payable in Australian Dollars, based on a notional principal of AUD 66 million at a rate of 3.9%.

(33) Interest is payable in Australian Dollars, based on a notional principal of AUD 27.2 million at a rate of 6.0%.

(34) Interest payable is 3 month U.S. LIBOR rate.

(35) Interest payable is 6 month U.S. LIBOR rate +.0475%.

(36) Interest is payable in Australian Dollars, based on a notional principal of AUD 138.2 million at a rate of 5.65 %.

(37) Interest is payable in Australian Dollars, based on a notional principal of AUD 149.3 million at a rate of 5.50%.

(38) The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.

(39) The terms of these debentures set the par value of these debentures at $300 million, the proceeds at issuance at $255 million and the obligation to be repaid at maturity at $241.8 million.

(40) No interest is payable in the first five years, thereafter interest is payable monthly at an annual interest rate of 17.25%.

(41) The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals with the final payment on January 10, 2045. The total principal and interest to be paid over the life of the debenture is $1,325 million in total.

(42) The terms of these debentures require no interest payments until maturity, at which time a single payment, comprised of both principal and interest, will be made in the amount of $700 million.

(43) The Province entered into currency exchange agreements which effectively converted all but USD 47 million of these US Dollar obligations to Canadian Dollar Obligations at an exchange rate of 1.3745.

(44) Callable, in whole but not in part, at par on October 27, 1998.

(45) Callable, in whole but not in part, at par on October 12, 2000.

(46) Interest payable is 3 month Deutsche Mark LIBOR + .0625%.

(47) Exchangeable, in whole but not in part, on February 4, 1998, at the holder's option, for an equivalent principal amount of Series KQ 7.375% bonds due February 4, 2027.

(48) The terms of these debentures require that a special one-time interest payment in the amount of $40.5 million be made at maturity. Interest payable is 4.35% for the first seven years, thereafter interest payable is 7.04%. The debentures are retractable, in whole but not in part, on December 2, 2003, at the holder's option, provided that the notice of retraction is made during the period from October 31, 2003 to November 12, 2003 inclusive. Such election is irrevocable and if invoked the one-time interest payment at maturity is forfeited.

(49) These debentures have two call options exercisable on August 6, 1997. Each of Option 1 and Option 2 permits the purchase of $75 million 30 year debentures with a coupon interest rate of 8%, at a strike price of 108.00 and 109.50 respectively. One, both or neither of the options may be exercised but may not be traded separately.

(50) These debentures have a non-detachable call option exercisable, in whole or in part, on the following dates: May 5, 1997, August 5, 1997, November 3, 1997, and February 3, 1998. The option permits the purchase of up to $150 million, in total, additional debentures of this issue.

(51) These debentures have a non-detachable call option exercisable, in whole or in part, on the following dates: May 5, 1997, August 5, 1997, November 3, 1997, and February 3, 1998. The option permits the purchase of up to $100 million, in total, additional debentures of this issue.

(52) The terms of these debentures permit the principal be repaid in either USD 44.6 million or AUD 55.0 million, at the Province's option.

(53) Interest payable is 6-month Yen LIBOR + 0.3%, with a maximum rate of 6.8%. Callable, in whole but not in part, at par on January 10, 2000 and every six months thereafter.

(54) Interest is payable in Australian Dollars, based on a notional principal of AUD 52.5 million at a rate of 3.10%.

(55) Interest is payable in U.S. Dollars, based on a notional principal of USD 120.8 million at a rate of 3.25%.

(56) Interest payable is 3 month Yen LIBOR rate + 0.100%.

(57) Interest is payable in Australian Dollars, based on a notional principal of AUD 121.1 million at a rate of 4.28%.

(58) The terms of these debentures are: proceeds received at issuance were JPY 7 billion, the obligation to be repaid is AUD 79,293,060 and interest is payable in Japanese Yen based on a notional principal of JPY 7 billion at a rate of 5.72%.

(59) The terms of these debentures are: proceeds received at issuance were JPY 30 billion, the obligation to be repaid is AUD 333,333,333 and interest is payable in Japanese Yen based on a notional principal of JPY 30 billion at a rate of 5.20%.

(60) The terms of these debentures are: proceeds received at issuance were JPY 25 billion, the obligation to be repaid is AUD 296,278,739 and interest is payable in Japanese Yen based on a notional principal of JPY 25 billion at a rate of 6.00%.

(61) Redeemable at the option of the holder on June 12 or December 21 or upon the death of the beneficial owner. The bonds are transferable, provided the new beneficial owner meets eligibility requirements. Annual Interest Bonds of each type may be exchanged anytime on or before June 6, 1997 for an equivalent principal amount of Compound Interest Bonds of the same type. Compound Interest Bonds of each type may be exchanged anytime, except during the period of June 6 to June 21 annually, for an equivalent principal amount of Annual Interest Bonds of the same type. The Minister of Finance may reset the interest rate from time to time prior to maturity.

(62) The interest rate was set at 4.5% for the first year. The minimum interest payable is 5.75% in the second year, 6.25% in the third year, 7.25% in the fourth year, and 9.00% in the final year.

(63) The Minister of Finance may reset the interest rate every six months. The initial interest rate was set at 4.75%. Effective December 21, 1996 the interest rate was set at 3.25%.

(64) The Province entered into currency exchange agreements which effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.0685. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.

(65) The Province entered into currency exchange agreements which effectively converted these French Franc obligations to Canadian Dollar obligations at an exchange rate of 0.26581. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 6.59%.

(66) The Province entered into currency exchange agreements which effectively converted these Norwegian Kroner obligations to Canadian Dollar obligations at an exchange rate of 0.21235. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.

(67) The Province entered into currency exchange agreements which effectively converted these New Zealand Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.95260. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.

Paper E

The R&D Opportunity: Cutting Taxes and Creating Jobs

Innovation, Economic Growth and Job Creation

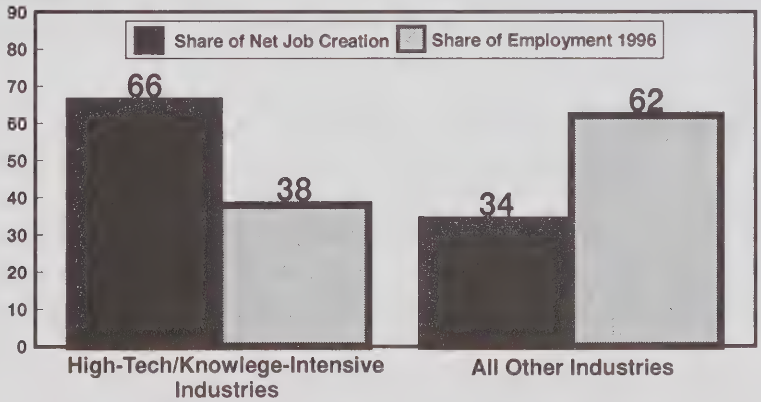
This paper is about jobs — creating new and better jobs in the future and ensuring that the province keeps the jobs it now has. Successful private-sector companies are the engine of job creation in the Ontario economy. The Government's plan is to create a positive business climate to unleash the power of private-sector job creation — by cutting taxes, by investing taxpayers' money more wisely, and by removing barriers to private-sector growth.

The stakes are high. Innovative economies, like Ontario's, that provide fertile ground for knowledge-based companies to grow can look forward to good jobs and a high standard of living in the future. Those that are not up to the challenge will see high unemployment and a declining standard of living.

- The job creation payoffs from innovation and research and development are substantial. During the last 10 years, two of every three new jobs in Ontario were created in knowledge and technology-based industries.

High-Tech and Knowledge-Intensive Industries* Are Job Growth Leaders

Ontario, 1986-96
Per cent



* High-tech/knowledge-intensive industries based on a weighted average of high-tech (determined by share of high-tech non-labour inputs) and knowledge-intensive (determined by share of weeks worked by university graduates). Commercial sector only.

Sources: Department of Finance Canada and Ontario Ministry of Finance

Innovation is the key that unlocks the door to knowledge-based growth and job creation. Just as it is necessary to invest in people and in physical capital for the economy to grow and create jobs, so also is it necessary to invest in innovation. Research and development – R&D – is an investment in innovation, in economic growth and in job creation. In other words, R&D is an investment in Ontario's future.

The Province's plan — cut taxes, invest wisely, and rely on the private sector for job creation and economic growth — will work for R&D just as it is working in other areas. Supporting R&D through tax cuts is one important way of creating good, long-lasting jobs. Encouraging the province's leading companies, large and small, to partner with Ontario's finest universities is another effective way to build the knowledge that will enable our companies to compete on a world scale and create jobs.

The Government will contribute $500 million to an R&D Challenge Fund that will result in a total investment of $3 billion over 10 years. This investment will promote greater partnership and collaboration between the private sector and Ontario universities and support research excellence in our universities. In addition, the Government is introducing seven new tax cuts to support private-sector investment in R&D and innovation, including a new 20 per cent refundable tax credit for business-sponsored R&D performed by universities and other post-secondary educational institutions in Ontario. These new tax measures will help support a further $3 billion in private-sector investments over the next 10 years.

In total, these measures will help ensure that Ontario remains one of the most competitive jurisdictions in the world in which to perform R&D. Their purpose is to move the economic yardsticks ahead – to create jobs, increase productivity, and raise incomes.

R&D and Innovation Key to Job Creation and Growth

In the 21st century, the ability to create and apply commercially valuable knowledge will separate the economic leaders from the rest of the pack. Companies throughout the world's advanced economies know this and are seeking ways to use knowledge to create competitive advantages.

R&D is an investment in innovation — the development and application of new knowledge to produce new products and services and to find new, more productive ways of doing things. Innovation is the cornerstone on which a high-income, job-creating economy is built.

R&D influences job creation and economic growth in a variety of ways:

- High R&D economies have a better chance to be in on the ground floor when new fast-growing industries that will be the job creation machines of the future are born.
- Fast-growing, innovative companies, many of which invest heavily in R&D, create a disproportionate share of new jobs.
- As new knowledge flows from one part of the economy to other parts, the productivity of capital and labour both rise. A general-purpose technology such as computing illustrates how new knowledge can ripple through the economy with profound effects on both what is produced and how it is produced.
- Even knowledge that is protected by intellectual property rights can benefit other companies through "demonstration effects" where companies learn by observing the products and services offered by their competitors.
- The skills and knowledge acquired through R&D diffuse through the economy as people change jobs and take their expertise with them.
- R&D capabilities make companies more proficient in adopting and commercializing new technologies.
- Success breeds success. Clusters of high-technology companies and institutions such as those in the Kitchener-Waterloo-Cambridge-Guelph Technology Triangle or the Ottawa area attract new investment and generate new "spin-off" companies.
- R&D-intensive sectors generate approximately 22 per cent of the province's merchandise exports. If autos are excluded, the export share of R&D-intensive industries rises to close to 40 per cent.

All of this means that the economy-wide returns from R&D are much greater than the returns to any individual firm that performs R&D. Estimates of the total economic return to R&D typically range from 50 to more than 100 per cent.

Ontario's High-Technology Firms Create Jobs

R&D-intensive companies in Ontario are turning successful innovation into jobs. Ontario's high-quality technological infrastructure, including its educated workforce, provides a strong foundation for continued growth.

Newbridge Networks Experiences Record R&D, Sales and Employment Growth

Newbridge Networks has become one of Canada's top corporate R&D performers and a world leader in the design and manufacture of networking products and systems for multimedia communications. Innovation at Newbridge has resulted in the creation of seven new Ontario-based advanced-technology affiliates. Last year, the company increased its Ontario employment by about 20 per cent. Today, Newbridge employs about 5,700 people at its Kanata, Ontario headquarters and worldwide facilities.

IBM Canada's Success Results in Ontario Jobs

IBM Canada is one of Canada's top corporate R&D performers and a leading provider of advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics. Last year, growth in demand for computer systems and services and networking systems caused the company to increase its full-time workforce by almost 2,800 positions. More than half of these new jobs were in Ontario. Today, IBM Canada and its subsidiaries employ more than 13,000 people at its Markham headquarters, Toronto research facility and other locations across Canada.

Com Dev Increases Ontario Employment

Com Dev is Canada's largest exporter of communications satellite equipment, including satellite multiplexer and switching networks. The company also produces scientific instruments and subsystems that play a crucial role in monitoring changes in the earth's environment. Last year, the company's Ontario employment increased by about 20 per cent. Today, Com Dev employs about 1,300 people at its Cambridge, Ontario headquarters and national and international facilities.

Hummingbird Achieves Strong Sales and Employment Growth

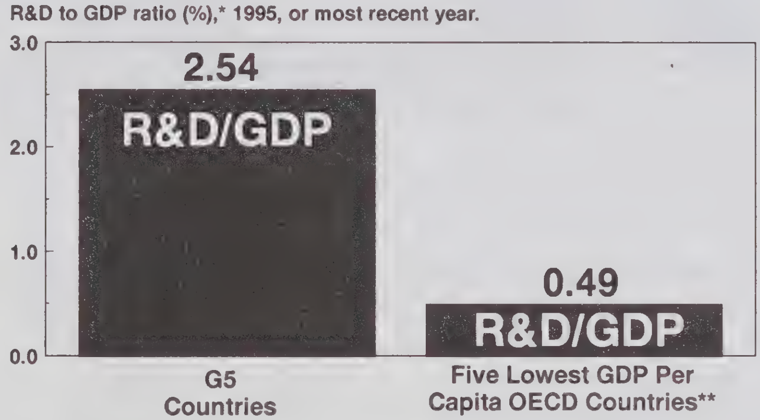
Hummingbird Communications develops software that provides personal computers with easy access to information and applications running on mini and mainframe host computers. Last year, strong growth caused Hummingbird to increase its Ontario employment by more than 60 per cent. Today, Hummingbird employs more than 350 people at its North York headquarters and international locations.

R&D Linked to Economic Success

Successful countries generally invest more in research and development than others. The United States, Japan, Germany, France and the United Kingdom, the high-income G5 countries, invest an average of more than five times as much of their economic resources in R&D as Turkey, Mexico, Greece, Portugal and Spain, the five lowest per capita income countries in the OECD.

High-Income Countries Invest More in R&D

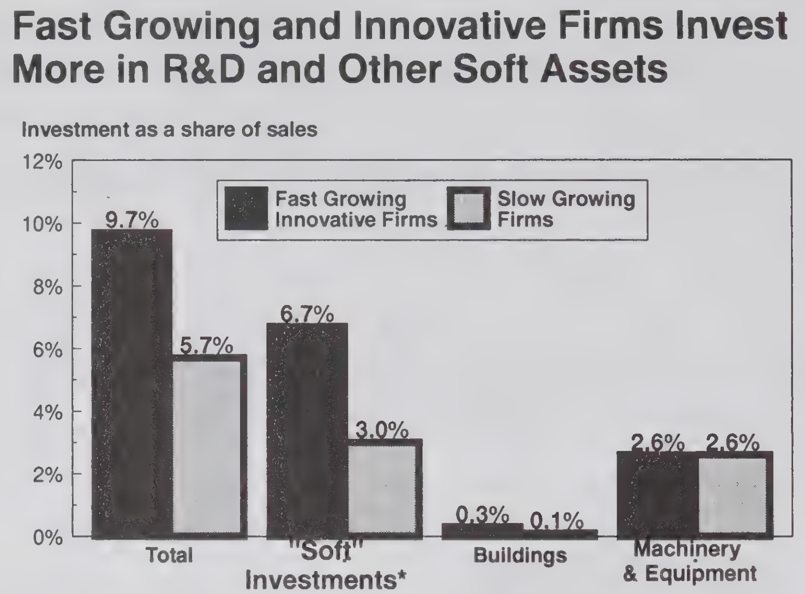
R&D Expenditure as a Percentage of GDP



Source: OECD

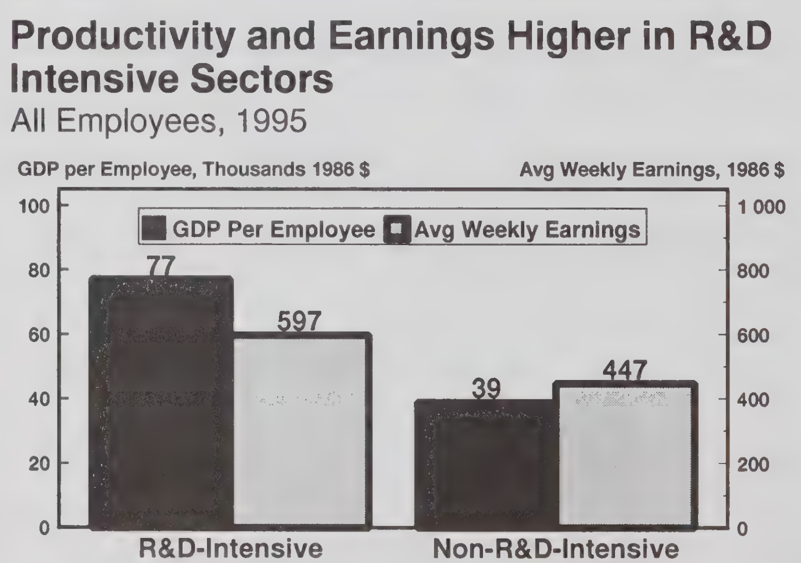
Notes: *Weighted average of R&D to GDP ratio. **Excludes new OECD countries.

Successful firms also invest more in what are referred to as “soft” assets such as R&D and intellectual capital. The fastest growing firms generally invest more than twice as much in R&D, marketing and training as firms that grow more slowly, even though they invest about the same proportion of their sales in physical assets. Sixteen of Ontario’s largest R&D-performing companies increased their R&D spending by more than 100 per cent between 1989 and 1995.



* Includes R&D, marketing and training
Sources: Ontario Ministry of Finance and Statistics Canada

R&D-intensive industries are highly productive. Their productivity rose from about $45,500 per employee in 1987 to almost $77,000 per employee in 1995 (in constant 1986 dollars), while productivity in non-R&D-intensive industries stagnated. As a result of their higher productivity, average weekly earnings in R&D-intensive industries are higher than average.



Sources: Statistics Canada and Ontario Ministry of Finance.
Note: R&D-intensive sectors have an industry R&D to GDP ratio that is at least twice as large as Ontario's overall business R&D to GDP ratio.

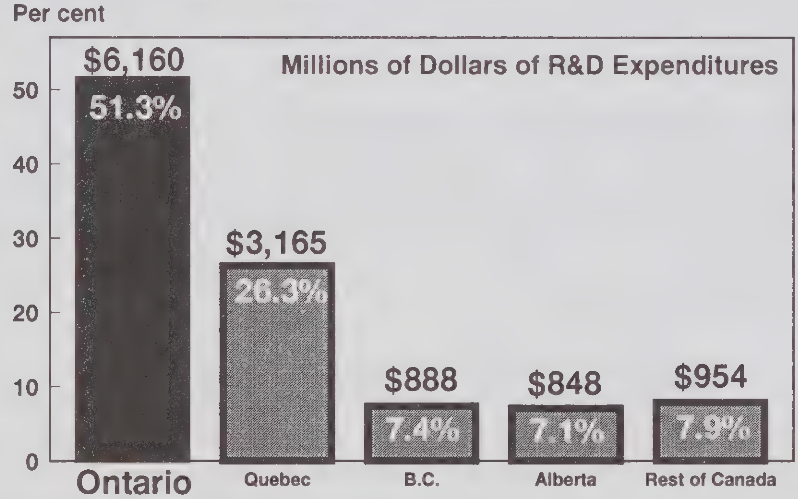
Ontario's R&D Strengths

The province has a strong R&D foundation on which to build. It is the largest R&D performer in Canada and the leader in technology adoption. It is also a leader in key R&D industries and home to most of Canada's largest R&D companies.

Canadian Leader in R&D

Ontario has the most R&D-intensive economy in Canada, with a 2.0 per cent ratio of R&D to GDP. In 1994, approximately $6.2 billion of R&D was carried out in Ontario, more than in the rest of Canada combined.

Distribution of Canadian R&D by Province, 1994

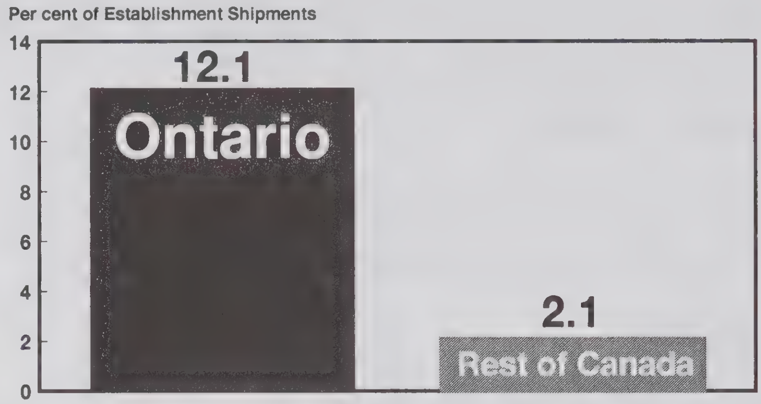


Sources: Statistics Canada and Ontario Ministry of Finance

Leader in Technology Adoption

Ontario companies also lead Canada in their ability to use new technology. Manufacturing companies in Ontario have the highest rate of technology adoption in Canada and are the most sophisticated users of technology. The proportion of companies using six or more different types of advanced technologies is almost six times higher in Ontario than in other provinces.

Use of Multiple Advanced Technologies*
Manufacturing Sector, 1993



*Use of at least one advanced technology from each of the following groups: design & engineering, fabrication & assembly, automated handling systems, inspection & communication, manufacturing information systems, and integration & control.

Source: Statistics Canada

Leading R&D Industries and Companies

Ontario's primary R&D strengths lie in seven industries that account for 64 per cent of business R&D spending: telecommunications, financial services, aircraft, business machines, pharmaceuticals, computing, and engineering and scientific services.

Ontario is home to many of Canada's leading R&D-performing companies, including Nortel, the largest R&D performer in Canada. The presence of knowledge-based companies often leads to the creation of more knowledge-based companies. Two of Ontario's leading R&D companies, Newbridge Networks and Corel Systems, are third generation spin-offs from Nortel.

Ontario's Top Seven R&D Performing Sectors, 1989-94

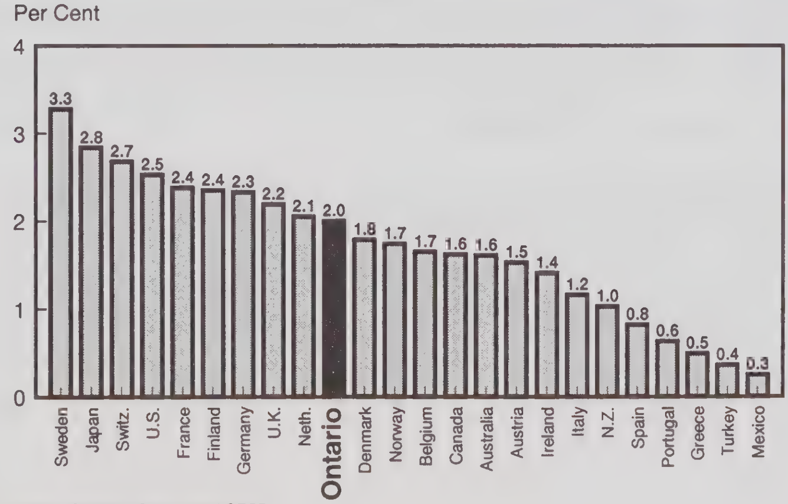
Industry	1994 Industrial R&D Spending ($ Millions)	1994 Share of Canada R&D (Per cent)	Ontario Growth 1989-94 (Per cent)
TOP SEVEN	**2,503**	**64**	**58**
Telecommunications Equipment	994	90	60
Financial Services	385	83	148
Aircraft & Parts	290	49	66
Business Machines	271	83	10
Pharmaceuticals & Medicine	197	50	121
Computer & Related Services	188	48	11
Engineering & Scientific Services	178	29	39
All Industries	**3,905**	**56**	**42**

Sources: Statistics Canada and Ontario Ministry of Finance

Ontario in OECD Top Ten

Ontario leads Canada in R&D performance. In international terms, the province would rank tenth among 26 OECD countries in R&D spending as a per cent of GDP.

R&D as a Percentage of GDP, 1994*



Sources: Statistics Canada and OECD
Note: *Or earlier year for some countries.

Taking Action: A New Approach to R&D and Innovation

Ontario has a solid basis on which to build new competitive advantages through R&D – competitive industries, leading R&D companies, a highly skilled workforce, and a positive business climate. The province's R&D performance is well ahead of the Canadian average and its innovative capabilities are strong.

The Province's innovation and R&D policies are designed to create a hospitable climate for innovation by companies, universities and other research institutions, leading to private-sector growth and job creation. However, new policies are needed to ensure that Ontario's economy continues to become more innovative and knowledge-intensive. The Government is taking action to build on the province's strengths and to ensure that Ontario has an innovative economy able to succeed in global competition.

Building Business-University Partnerships: A Key to Knowledge-based Industrial Clusters

North America has a number of geographic concentrations of high-technology companies, universities and other research institutions. Silicon Valley, the most famous example of a cluster of companies and research institutions, contains 6,000 high-tech companies with total sales of over $200 billion.

It is not enough to create the general conditions in which R&D can flourish. To realize the potential economic payoff from R&D in Ontario, businesses and universities need to work together to produce the critical mass necessary to achieve research excellence and competitive advantage in technology and knowledge-intensive industries. Therefore, the Government's major new policy direction in R&D is to provide greatly increased incentives for businesses and universities to build productive and mutually beneficial partnerships.

Ontario's new R&D measures — particularly the R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit — are designed to encourage the kind of mutually advantageous cooperation between business and universities that helps to create the Silicon Valleys of the world and the prosperity they bring.

Businesses and Universities Working Together To Create Jobs and Improve Competitiveness

Businesses are increasingly looking to universities to help keep them at the forefront of innovation. University-industry collaboration on advanced research results in new products, highly-skilled workers and a climate of innovation that attracts knowledge-intensive firms.

Dofasco Inc. - McMaster University

Dofasco and the Natural Sciences and Engineering Research Council are co-funding a research chair in process metallurgy at McMaster University to explore ways of reducing the cost of producing high-quality steel.

Nortel Announces Institute for Telecommunications at University of Toronto

Nortel has announced the creation of a Nortel Institute for Telecommunications at the University of Toronto. The Institute will fund programs that include a masters degree in telecommunications, a graduate scholarship for telecommunications, a chair in network architecture, a chair in emerging technology and an applied physics laboratory. Nortel is also supporting a new School of Information Technology and Engineering at the University of Ottawa.

Chrysler Canada and University of Windsor Open New Automotive Research Centre

In 1996, Chrysler Canada and the University of Windsor opened a new Automotive Research and Development Centre in Windsor. The first co-operative automotive research facility of its kind in Canada, the Centre will build on Chrysler's expertise in alternative fuels and pursue niche research in new automotive product technology. It will also provide co-operative automotive product research through research chairs in Automotive Design, Alternative Fuels and Ultrasonic Microscopy endowed by Chrysler Canada.

Collaboration by R-Theta Inc. and University of Waterloo Results in Sales and Job Growth

Research collaboration between R-Theta Inc., the University of Waterloo and the Manufacturing Research Corporation of Ontario, an Ontario Centre of Excellence, has resulted in sales and employment growth at the Ontario company. R-Theta, based in Mississauga, has seen a fourfold increase in sales and a fivefold increase in employment. The company now employs more than 100 people in Ontario.

Supporting Leading-Edge Research Institutions

An excellent university research system is one of the building blocks for successful innovation in the rest of the economy. The university research system links to private-sector innovation in a variety of ways — through research carried out for private-sector companies, by providing a research environment that attracts top-quality faculty and graduate students, by making discoveries and developing applications of research with commercial value, and by providing a stream of highly skilled people for companies to hire.

However, from a business perspective, university research is a high-risk proposition. A recent study by William M. Mercer Limited estimated that only about one in 6,000 apparent discoveries eventually had appreciable commercial value. These odds could be lowered if the province's universities had even more world-class researchers, if more funds were available for their research, and if more of this research captured the interest of the private-sector from the outset.

The R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit will provide incentives for businesses to invest in the work of researchers of international calibre and for universities to seek private-sector partners. The quality of human capital, represented partly by the presence of world-class researchers, is a key factor determining the location of corporate R&D investment. These kinds of incentives can lower the cost and the risk of investment in R&D for the private-sector, and give companies early access to the results of R&D.

Developing Highly Skilled People for Knowledge and Technology Businesses

The ability to generate and apply new knowledge is a scarce resource. Those jurisdictions that are able to provide the highly skilled people needed to compete in knowledge- and technology-based industries will attract new investment.

Ontario is already very competitive in this respect. In 1994, 46.5 per cent of Ontarians aged 25-64 had completed post-secondary education, the highest percentage in the OECD.

The new R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit will add to Ontario's attractiveness for world-class researchers and R&D investments. In doing so, they will also improve the quality of teaching in participating universities and other post-secondary educational institutions in Ontario.

Ontario's personal income tax cut will also help to attract and retain world-class researchers. Changes to Ontario's Co-operative Education Tax Credit will provide additional incentives to businesses hiring post-

secondary students enrolled in leading-edge technology programs. Ontario is also taking steps to ensure that taxpayers' investments in educating our young people translate into jobs. Businesses will be eligible for a 10 per cent tax credit for hiring an unemployed graduate from a post-secondary educational institution in Ontario. This will help provide our educated youth with on-the-job training and will foster a better trained and educated workforce.

Financing R&D and Innovation

The availability of external financing for small, knowledge-based companies in Ontario is critical to their growth. Three key trends are supporting an improvement in access to capital for these companies.

First, private-sector financial institutions are developing specialized funding vehicles to meet the needs of knowledge-based industries. The five major banks have established over 30 specialized lending units for knowledge-based companies in Ontario.

Second, more venture capital is becoming available in Ontario. In 1996, venture capital companies invested $320 million in technology-based companies, up from $156 million in 1995. Most of this increase was accounted for by the rapid growth in venture capital investments in technology-based sectors by Labour-Sponsored Investment Funds:

- LSIFs accounted for 53 per cent of venture capital invested in technology-based companies in Ontario in 1996, up from 34 per cent in 1995.
- LSIFs allocated 71 per cent of their total 1996 investment to technology-based companies, up from 64 per cent in 1995.

The 1997 Budget requires LSIFs to direct more of their investments to small business.

Furthermore, Ontario's small business investment tax credit provides incentives to financial institutions to provide capital to start-ups and growing knowledge-based companies in Ontario. As a result of the 1997 Budget, financial institutions will now be able to claim a 75 per cent tax credit for equity investments of $50,000 and under in small businesses.

Third, new links between financial institutions and Ontario universities are emerging to help commercialize promising research. For example:

- The Royal Bank of Canada and Quorum Growth Inc., a venture capital company, have formed the Technology Launch Initiative to work with universities and research laboratories to identify and accelerate the commercialization of promising new Canadian technologies.

- The Canadian Medical Discoveries Fund has established University Medical Discoveries to develop and commercialize early-stage biomedical research from Canadian universities, hospitals and research institutes.

- The University of Guelph has set up a publicly listed technology management firm, Guard Inc., to convert the inventions resulting from university research into new high-technology business enterprises.

Commercialization activities have already proven beneficial to both the individual universities and the Ontario economy as a whole. The University of Toronto earned $3.1 million of royalties in 1995-96. To encourage further commercialization of university research, the Community Small Business Investment Funds announced in the 1997 Budget can be sponsored by universities or groups of universities and used to more rapidly commercialize university-generated innovations.

Fostering Technology Adoption and Commercialization

The tax system is also designed to encourage the adoption and commercialization of new technology. As a result of the 1997 Budget, Ontario will now allow corporations to deduct 100 per cent of the acquisition costs of intellectual property that is used in their active business. To qualify, the intellectual property must be used exclusively in Ontario by the firm to implement an innovation or invention. Simply buying the rights to sell the product will not be sufficient to claim the Ontario New Technology Tax Incentive.

To enhance technology adoption, Ontario will no longer apply a tax on firms that acquire new technology from foreign parent corporations. This tax of 5 per cent on technology royalty payments acted as a barrier to the adoption of new technology in Ontario.

Supporting Innovative Growth Firms

A relatively small number of firms are major job creators and contributors to economic growth. During the last economic expansion, 5 per cent of small companies were responsible for 43 per cent of all job creation by small companies in Canada, and 10 per cent of medium-sized companies were responsible for 50 per cent of all job creation in their category. A recent Statistics Canada study found that innovation is the key characteristic distinguishing the fastest growing companies from companies that grow more slowly.

The tax system in Ontario provides R&D incentives at critical stages in the innovation process to support innovative and growing firms. As a result of the 1997 Budget, equipment used by a manufacturer exclusively for a combination of R&D and manufacturing will be exempt from Retail Sales

Tax. In addition, R&D expenditures will be exempt from Ontario's capital tax. This change will help reduce the costs of acquiring new R&D equipment.

To provide innovative growth firms with the financing they need to grow and create jobs, small firms are eligible for Ontario's 10 per cent refundable tax credit for R&D performed in Ontario. For business-sponsored R&D performed by universities, small firms will be eligible for both the 10 per cent Ontario Innovation Tax Credit and the 20 per cent Ontario Business-Research Institute Tax Credit, for a total of 30 per cent for qualifying R&D expenditures in Ontario.

The Provincial reductions in personal income tax rates and the Employer Health Tax will also leave more money in the hands of small business to invest where it is needed most.

Enhancing Ontario's R&D Tax Competitiveness

The 1997 Ontario Budget introduces seven new tax measures to support R&D and innovation. These measures will boost Ontario's support for R&D and innovation by $100 million per year, provide generous R&D tax relief for corporate-sponsored university R&D, and encourage the adoption and commercialization of new technology.

Ontario's Current R&D Tax Incentives

Ontario currently offers two major tax incentives that benefit R&D-performing companies and innovative growth firms: the R&D Super Allowance and the Ontario Innovation Tax Credit.

R&D Super Allowance

- The R&D Super Allowance provides additional deductions for corporate income tax purposes for qualifying R&D performed in Ontario.
- For corporations which are not Canadian-controlled private corporations, Ontario provides a 25 per cent additional deduction on qualifying R&D expenditures. For Canadian-controlled private corporations (CCPCs), Ontario provides a 35 per cent additional deduction for qualifying R&D expenditures in Ontario.
- To foster incremental R&D spending, the Super Allowance further enriches the allowed deduction. For incremental expenditures, the 25 per cent and 35 per cent additional deductions are increased by 50 per cent to 37.5 per cent and 52.5 per cent respectively. Incremental expenditures are determined by the amount that R&D expenditures in a year exceeds the average R&D expenditures over the previous three years (i.e., three-year moving average).

Ontario Innovation Tax Credit (OITC)

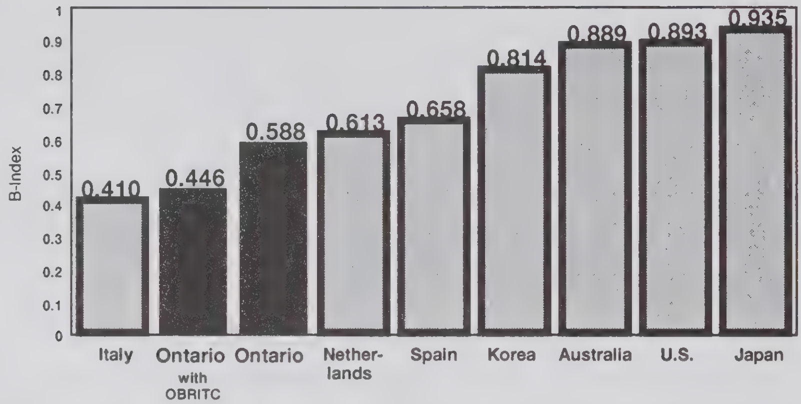
- To foster the development of growing innovative firms, Ontario provides a 10 per cent refundable tax credit for small and medium-sized CCPCs performing R&D in Ontario.
- The OITC applies to 100 per cent of qualifying current expenses such as salaries and wages, and to 40 per cent of qualifying capital expenses.
- OITC is targeted to small- and medium-sized R&D performers based on federal taxable capital and active business income thresholds:
  - Firms must have less than $200,000 in taxable income and less than $10 million in taxable capital to qualify.
  - OITC is phased out when firms exceed $400,000 in taxable income or $15 million in taxable capital.

The 1997 Budget introduces seven new tax initiatives to support R&D and innovation:

- Effective May 7, 1997, Ontario will be providing a 20 per cent refundable R&D tax credit for corporate-sponsored R&D performed in Ontario by eligible Ontario universities and other approved post-secondary educational institutions and research associations. The **Ontario Business-Research Institute Tax Credit** will also be available for small and medium-sized firms claiming the OITC.
- Effective January 1, 1998, Ontario will be providing a 15 per cent tax credit on qualifying labour costs relating to **computer animation and special effects**. This credit will help ensure that Ontario retains and builds on its world-class reputation in digital animation.
- The **co-operative education tax credit will be expanded** to include qualifying work placements from leading-edge technology programs, such as computer and information technology. The enhanced credit will be effective January 1, 1998.
- Firms **acquiring and using intellectual property to implement an innovation or invention** will be able to claim an immediate 100 per cent deduction of the qualifying acquisition costs for Ontario income and capital tax purposes.
- To foster the adoption of new technology, Ontario will be **eliminating the corporate income tax add-back rule on the acquisition of foreign technology**, such as royalty payments for computer software.
- The **retail sales tax exemption for R&D equipment used by manufacturers will be expanded** to include qualifying equipment used exclusively for a combination of manufacturing and research and development activities.
- To help growing R&D firms, corporations will be able to **deduct immediately all R&D and qualified intellectual property expenditures for capital tax purposes**.

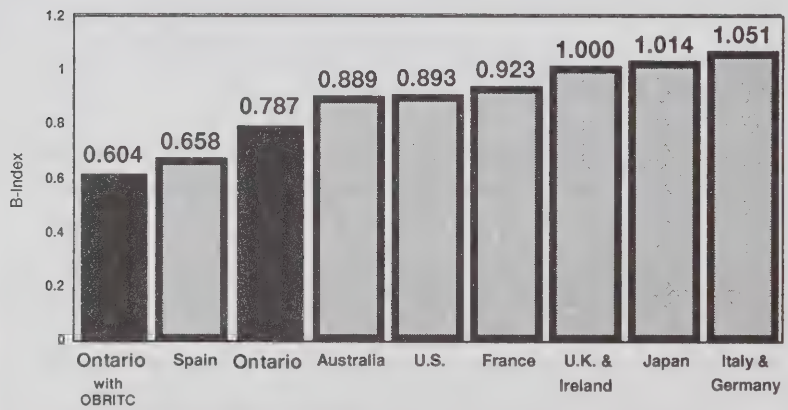
According to a 1997 study by the Conference Board of Canada, when compared to OECD countries, Ontario ranked as the second most competitive jurisdiction for R&D performed by both large and small manufacturing firms. The 1997 Budget measures for R&D and innovation will help ensure that Ontario can continue to attract global investments in R&D.

Ontario's R&D Tax Competitiveness Compared to Selected OECD Countries for a Small Manufacturing Firm, 1995-96



Note: The more favourable the tax treatment, the lower the "B-index" (present value of before-tax income required to cover the cost of an initial R&D investment and to pay the applicable income taxes to become profitable).
Sources: The Conference Board of Canada (1997) and Ontario Ministry of Finance.

Ontario's R&D Tax Competitiveness Compared to Selected OECD Countries for a Large Manufacturing Firm, 1995-96



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Sources: The Conference Board of Canada (1997) and Ontario Ministry of Finance.

The R&D Challenge Fund

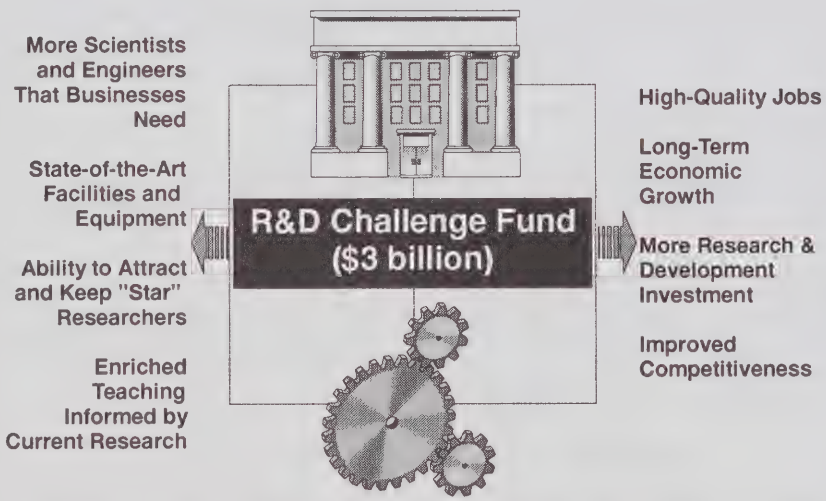
Overview

The Government is creating an R&D Challenge Fund to promote business-university partnerships and research excellence. The Fund will result in a total of $3 billion of R&D at universities in the next 10 years.

The objectives of the R&D Challenge Fund are:

- to support job creation and economic growth
- to promote world-class research of interest to the private sector
- to encourage more collaboration between the private sector and research institutions.

Building Stronger Linkages Pays Big Economic Dividends



There is a growing trend in industrialized countries for business and universities to work together more closely — and for an increasing portion of university research to reflect private-sector needs and priorities that promote job creation and economic growth. The R&D Challenge Fund will promote this trend in Ontario.

All participants will benefit. Taxpayers will benefit from more jobs and higher incomes. Universities will benefit because they will gain access to more government and private-sector funding. Students will benefit from an increasingly rich and relevant body of applied research that informs the teaching they receive and provides increased opportunity for graduate studies. Businesses will benefit because they will gain earlier access to research results; they will be better able to identify potential commercial applications of research; and they will be able to identify and hire highly qualified graduates.

Flexible Strategic Focus

The main priority of the R&D Challenge Fund will be to attract and keep world-class researchers in Ontario. The Fund will have the flexibility to provide support for whatever is needed to achieve this, including:

- leading-edge research that benefits today's growing industries and helps create the industries of the future
- state-of-the-art equipment and facilities
- incentives for gifted researchers to work in Ontario, including endowed chairs.

The Fund will have a people focus rather than a traditional project focus. Proposals from universities and other research institutions will be expected to make a clear link between the proposal and the attraction and retention of these key researchers.

All disciplines will be eligible for support from the Challenge Fund, but it is expected that the Fund will primarily focus on the fields of natural science and engineering, mathematics, health sciences, and environmental sciences.

Funding will be awarded on a competitive basis, according to a proposal's contribution to research excellence and economic growth. The evidence of its economic benefit will be its ability to attract private-sector support. A peer review process will be used to assess the quality of the research that would be supported by a proposal.

Universities, research-oriented health care facilities, and other research institutions will be eligible to receive support from the Fund. A Board will be established to make funding decisions. The Board will be made up of business leaders, leading researchers, and government representatives.

The Challenge Fund will support both longer-term discovery research of interest to the private sector and shorter-term research with more immediate industrial applications. In both cases, the research institution or the principal investigator will own the intellectual property rights arising from the research. For research that is expected to yield immediate industrial applications, the research institution or the principal investigator may negotiate with their corporate partners rights of access, in the form of a licence or other commercialization agreement, usually in proportion to the company's contribution. Contract R&D, however, will not be eligible for support from the Fund.

Competition for World-Class Researchers Intensifying

Top scientists and world-class researchers act as magnets for new investment. They attract the best graduate students, generate spin-off companies, and attract private-sector funding.

The link between star researchers and economic development has caught the attention of many state governments. North Carolina and Georgia are reported to be spending tens of millions of dollars each year to lure top scientists to their states. Georgia's Research Alliance has spent over $160 million since the early 1990s to recruit 22 top scientists. They expect their investment to pay off in new high-tech industries and high-paying jobs.

Amgen Inc., an American biopharmaceutical firm, is investing $10 million per year in Ontario because of the presence of a particular molecular biologist. The company initially sought to attract this individual to California but when he declined, it decided to bring its investment to him in Toronto.

However, Ontario has not been successful enough in attracting and keeping these high-calibre researchers. In recent years, for example, the University of Toronto lost one of its world-class biotechnology researchers to British Columbia, one of the world's most promising astrophysicists to Princeton, New Jersey, and a promising computer scientist, also to Princeton.

Ontario's Investment

Ontario will contribute $500 million to the Fund over 10 years. Beginning in 1997-98, the Province will provide $50 million to the Challenge Fund each year.

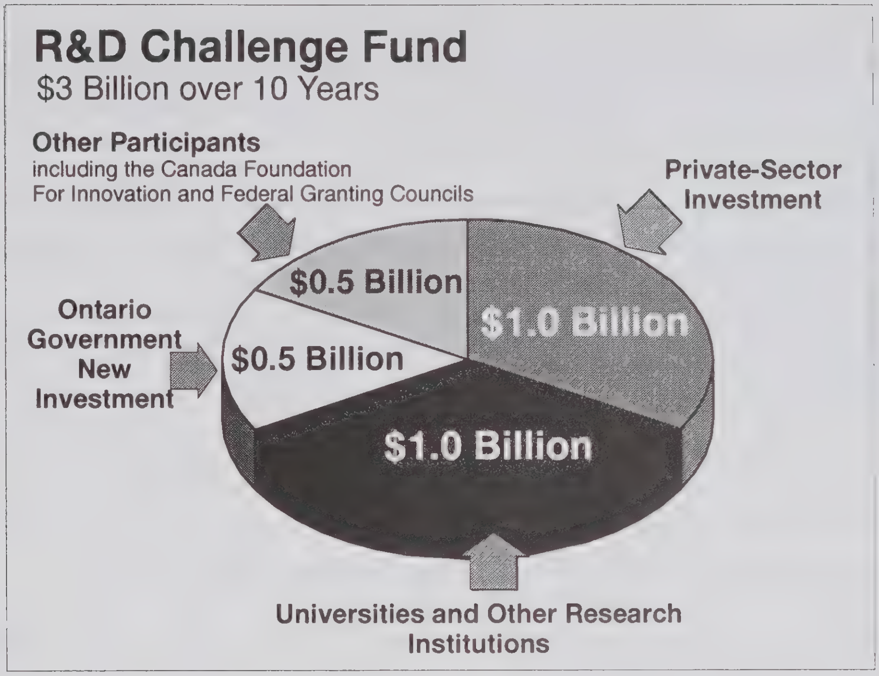
At least one-third of the funding for all R&D Challenge Fund projects must come from the private sector. To provide companies with an added incentive to participate, corporate contributions which qualify as R&D expenditures under the Income Tax Act (Canada) will be eligible for the new 20 per cent tax credit. This means, among other things, that the R&D is related to the corporation's business and can be exploited by the corporation in its business.

Universities typically set aside monies from within their annual budgets to promote competition for internal research resources. To participate in the Fund, universities will be expected to use these types of funds in support of their participation. This participation is expected to total at least $1 billion over the life of the Fund.

The Challenge Fund will initially match funds from universities and other research institutions on a dollar for dollar basis. The funding participation expected from universities and other research institutions for each dollar contributed by the Province will increase over time.

Other participants may include federal and international granting councils and the recently announced Canada Foundation for Innovation. The R&D Challenge Fund will help to ensure that Ontario's universities are able to compete for funding from the Canada Foundation for Innovation on a timely basis.

This new program will result in a total of $3 billion of R&D in our universities and other research institutions over the next 10 years.


R&D Challenge Fund
$3 Billion over 10 Years
Other Participants
including the Canada Foundation
For Innovation and Federal Granting Councils
Private-Sector
Investment
$0.5 Billion
$1.0 Billion
Ontario
Government
New
Investment
$0.5 Billion
$1.0 Billion
Universities and Other Research
Institutions

R&D Challenge Fund: Design Highlights

Funding

Ontario will contribute $500 million over 10 years:

- $50 million annually beginning in 1997-98
- at least one-third of funding for all projects must come from private-sector businesses
- qualifying corporate R&D contributions will be eligible for the Ontario Business-Research Institute Tax Credit.

Eligible Expenditures

The Challenge Fund will have the flexibility to provide support needed to attract and keep world-class researchers, including:

- leading-edge research that benefits today's growing industries and helps create the industries of the future
- state-of-the-art equipment and facilities
- incentives for gifted researchers to work in Ontario, including endowed chairs.

Eligible Applicants

Universities, research-oriented health care facilities and other research institutions.

These institutions will be expected to use internal resources to participate.

Other Participants

The R&D Challenge Fund is expected to attract a wide range of participants, including:

- corporations
- Canada Foundation for Innovation
- federal granting councils and other government sources
- not-for-profit institutes and organizations
- individuals.

Strategic Focus

All disciplines will be eligible for support from the Challenge Fund, but it will primarily target the following areas of research:

- natural sciences and engineering
- mathematics
- health sciences
- environmental sciences.

The Challenge Fund will support both longer-term discovery research and shorter-term research with more immediate industrial applications. Contract R&D will not be eligible.

Administration

Funding decisions to be made by a Board composed of leaders from the business community, leading researchers, and government representatives.

Board members, including the Chair, to be appointed by the Provincial Government. A small secretariat will be established to support the Board.

Conclusion

Our goal is an ambitious one — to keep Ontario at the forefront of innovation and R&D. Over the next 10 years, the actions announced in the 1997 Budget will support an estimated $6 billion of investment in R&D and innovation in Ontario.

The Ontario economy is strong and these new policies will make it even stronger. They are designed to further develop the critical mass needed for knowledge- and technology-based economic growth and job creation. The new tax cuts will help ensure that Ontario continues to attract global R&D investment. This will contribute to the rejuvenation of the province's business climate and further increase its attractiveness for investors.

The Province is also introducing powerful new incentives for business-university partnerships — the R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit. These partnerships are one of the building blocks for the knowledge- and technology-based clusters of industries and institutions that are already a key engine of job creation in the province.

To stay at the leading edge of innovation, companies and institutions must have highly talented and skilled people. The 1997 Budget measures will help students to pursue higher education, help to attract the best minds to teach them, and increase their employment opportunities.

At the same time, new ideas and discoveries must be successfully commercialized to realize their full economic benefit. For many small, innovative companies, access to financing remains a barrier. The Government has introduced a variety of measures to encourage banks and venture capitalists to invest in knowledge- and technology-based companies, including Community Small Business Investment Funds.

For its part, the Government is making a major new commitment to innovation and R&D. We invite the business community, universities and other levels of government to work together to meet the innovation challenge. The Government will consult on the implementation of the R&D Challenge Fund and the tax cuts with those affected, including businesses, universities and other research institutions. The consultation process will take place quickly so that Ontario companies and universities can compete for funding as soon as possible.

Ontario Government Support For Innovation and R&D

Growing Innovative Companies

Current

- Ontario R&D Super Allowance
- Ontario Innovation Tax Credit
- Telecommunications Access Partnerships
- Innovative Growth Firm Connection, including wisdom exchanges

New

- 15% tax credit for computer animation
- 100% write-off for acquiring intellectual property
- Elimination of the add-back rule on foreign technology
- Expansion of the retail sales tax exemption for qualifying manufacturing and R&D equipment
- Capital tax exemption for R&D and intellectual property

Financing Innovation

New

- Enhancement of the Small Business Investment Tax Credit For Banks
- Community Small Business Investment Funds
- Changes to LSIF rules

Current

- Small Business Investment Tax Credit for Banks
- Tax incentives to venture capital

Highly Skilled People

Current

- Grants to universities and colleges
- Ontario Student Opportunity Trust Funds
- Ontario Student Assistance Program
- Co-operative Education Tax Credit
- Apprenticeship System
- Centres of Specialization in Colleges

New

- Graduate Transitions Tax Credit
- Co-operative Education Tax Credit for students in leading-edge technology programs.
- Animation, Communications Design and Technology Centre at Sheridan College

University/Industry Partnerships

New

- R&D Challenge Fund
- Business-Research Institute Tax Credit

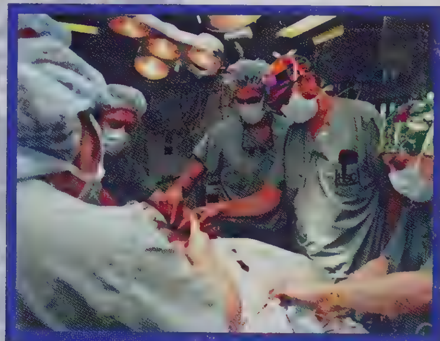
Current

- Centres of Excellence
- Provincial research grants and contracts to universities and other research institutions
- University Research Overheads Envelope

Investing in the

Future

HEALTH CARE



EDUCATION

SAFE COMMUNITIES

JOBS

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1998 Ontario Budget

Budget Speech

Jobs for the Future, Today

The Honourable Ernie Eves, Q.C.
Minister of Finance

Ontario

1998 Ontario Budget

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Presented to the
Members of the Legislative Assembly of Ontario by
The Honourable Ernie Eves, Q.C.
Minister of Finance
May 5, 1998

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Introduction

All across Ontario today, small business owners, entrepreneurs, and private-sector investors are creating jobs. Jobs for welders and store clerks; for child care workers and truck drivers; for factory workers and software designers; for scientists, technicians and machinists. Companies large and small are investing and expanding.

Today, taxes are lower; the deficit is being reduced; welfare recipients are returning to work; taxpayers' money is being spent more wisely; and major investments are being made in health care and in our children's classrooms.

In the first quarter of 1998, Ontario experienced a rate of job growth unprecedented in the past 15 years, and I am proud to say that, between February 1997 and February 1998, more jobs were created in Ontario than have ever been created in a one-year period in the entire history of our province.

Today, Ontarians have a renewed confidence; a renewed optimism in our future. Today, Ontarians believe, as do we, that our province is once again the best place in the world to live, work and invest.

In my Budget last year I spoke of laying the foundations so that young people like my daughter Natalie and her generation could reach their full potential in a greater, stronger Ontario.

This Budget builds on those foundations through more tax cuts, additional improvements in health care, support for children, initiatives for safer communities, and investments in learning.

I want to extend my personal thanks to my good friend Premier Harris and my colleagues in the House for their guidance and counsel.

I would also like to thank the entire team at the Ministry of Finance; my personal staff, led by Steve Pengelly; and Finance staff inspired by Deputy Minister, Michael Gourley.

I don't think it would be possible to find a more dedicated, innovative team leader than Mike Gourley. His assistance and support have helped me immeasurably over the past three years. I guess you could even say, Mr. Speaker, that this Budget has been "Gourleyized."

I especially want to thank my family. My mother — who, while encouraging all of her children to get an education to prepare themselves for future opportunities, never let us forget the needs of the less fortunate in society.

To my wife Vicki, and daughter Natalie, a heartfelt thank-you for their support and love through some very difficult times.

Thank you to the many individuals and organizations across the province who shared with me their thoughts, their ideas and their experiences.

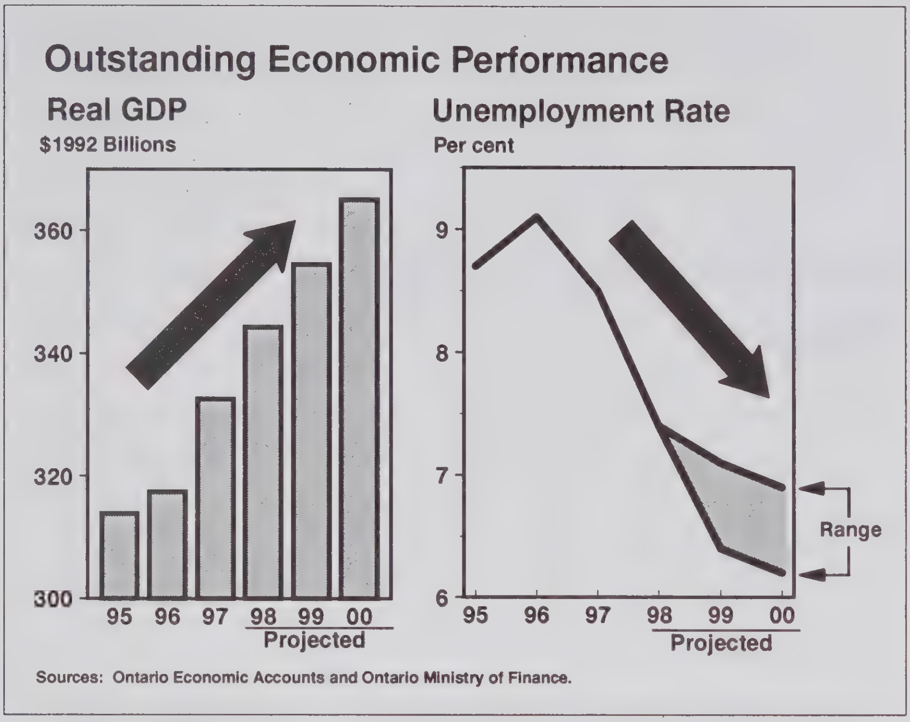
Ontario's Economy Leading The Way

All Ontarians can be proud of the accomplishments of the last three years.

Ontario's economy is booming.

The province's economy expanded by 4.8 per cent in 1997. The average private-sector forecast for growth in 1998 is 4.0 per cent.

Private-sector forecasters expect Ontario's economy to grow faster than that of any of the G-7 industrial countries over the next three years.



Consumer confidence rose for the ninth straight quarter in early 1998, and so far this year, retail sales have grown by 10 per cent.

Housing starts increased by 25.6 per cent in 1997. Our Land Transfer Tax refund has helped more than 28,000 families buy their first new homes. The value of business building permits issued in 1997 rose by 32.6 per cent.

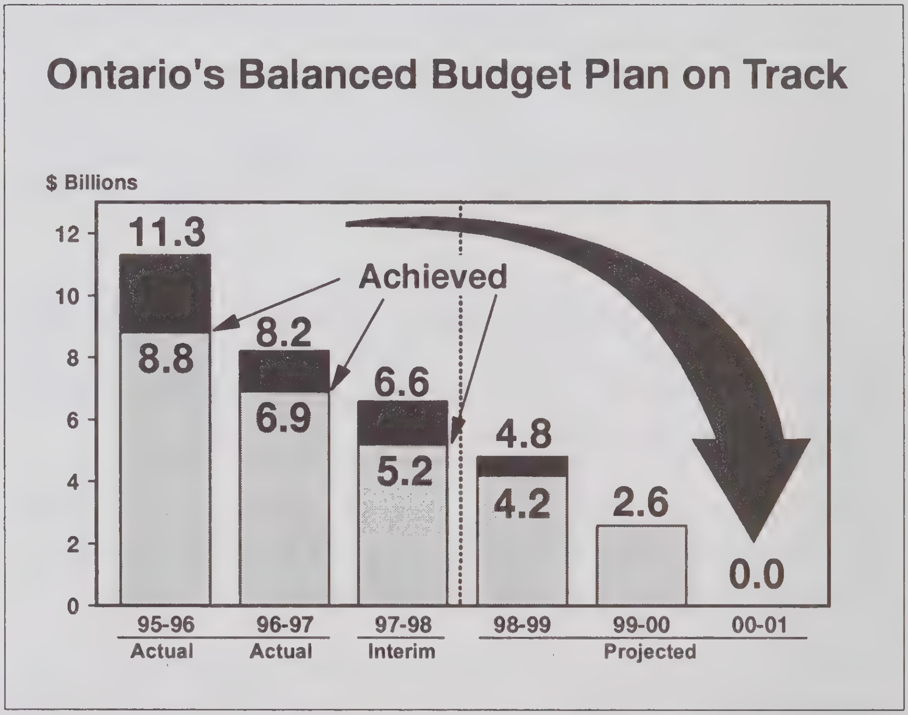
Ontario's international exports are up by 8.3 per cent so far this year. The Export Marketing Task Force is working to increase Ontario's share of the global export market.

Women entrepreneurs are playing an ever-increasing role in the expanding Ontario economy. The Joseph L. Rotman School of Management at the University of Toronto is developing new business leaders with its highly successful management program. In partnership with the private sector, it is recognizing outstanding successful women entrepreneurs through its Woman Entrepreneur of the Year Award.

My colleague, the Honourable Dianne Cunningham, Minister Responsible for Women's Issues, will be holding roundtable discussions on ways to expand this type of very innovative program.

On Target to Balance the Budget

The 1997-98 Ontario deficit will be $5.2 billion. This represents a reduction of almost $1.4 billion from the $6.6 billion target for 1997-98 set out in the 1997 Budget, and includes $725 million for the cost of an agreement with teachers providing for an early retirement opportunity and other benefit enhancements.



The deficit for 1998-99 will be $4.2 billion, $0.6 billion lower than the deficit target for this year set in the Balanced Budget Plan.

The Balanced Budget Plan will ensure that the deficit is eliminated by the year 2000-01.

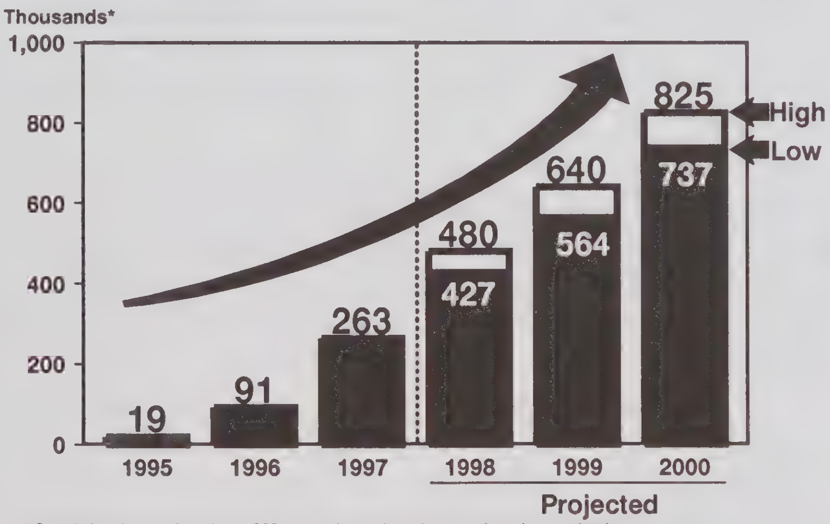
Creating Jobs Through Tax Cuts

The Ontario economy created 265,000 net new private-sector jobs between February 1997 and February 1998. This was the largest number of jobs created in a 12-month period in the province's history. In the first quarter of this year, the Ontario economy created jobs at a rate unequalled in the past 15 years.

Ontario's unemployment rate declined again in March to 7.4 per cent.

Overall, 1998 promises to be one of the best years in Ontario's history for job creation.

Jobs Created Since Mid-1995



* Cumulative change since June 1995 to actual or projected year-end employment level.
Sources: Statistics Canada and Ontario Ministry of Finance.

Cutting Ontario Income Taxes Means More Jobs

A tax cut is the best job creation program.

I have already announced 30 tax cuts. Today I am proposing 36 more tax reductions.

30 per cent PIT cut six months early

We promised the people of Ontario a 30 per cent income tax cut over three years. As a result of the first four steps of the Ontario tax cut, the economy has performed better than expected. Therefore, I am introducing legislation to accelerate the final phase of the tax cut to July 1, 1998 — half a year ahead of schedule.

A promise made, a promise kept.

Every Ontario taxpayer gets a tax cut.

When this final stage is implemented, more than 90 per cent of Ontario taxpayers will see a cut in Ontario income tax of at least 30 per cent.

Most of the tax reduction will go to the nearly three million middle-income taxpayers in this province. These taxpayers, who earn between $25,000 and $75,000, will receive 64 per cent, or almost $3 billion, of savings from the tax cut every year.

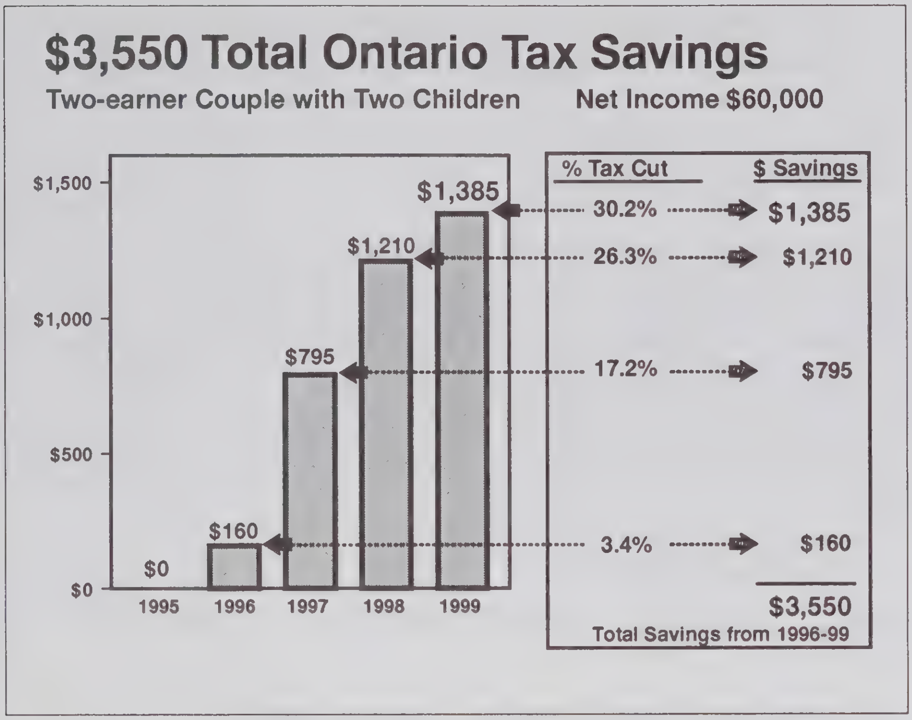
Ontarians with modest incomes will get the largest percentage reductions.

Ontario leads the way in cutting taxes. In 1998, the broad-based Ontario income tax cut will provide five times more in tax reductions than the selective cuts made by the federal government. The Ontario tax cut means more tax relief for more people.

As a result of Ontario's tax cut, a couple with two children and a net family income of $60,000 will pay $1,210 less in Ontario income tax this year. When this year's cut is combined with reductions in the last two years, that family will have saved $2,165. When 1999 is added, the benefit to this family from Ontario's tax cut will be $3,550.

This same family can look forward to only $120 in tax savings in 1998 from the narrowly based federal tax cuts.

Ontario and other provinces have taken action by introducing substantial income tax cuts. In recent discussions, several



leading economists told us that the federal government's refusal to cut taxes meaningfully is holding back economic growth.

Meaningful and lasting jobs are created by the private sector. Governments can help by establishing an environment that supports job creation, by cutting taxes, reducing the deficit and eliminating red tape. The Government of Ontario is doing just that.

We are committed to taking further action to foster job creation.

Small Business Tax Cuts Mean Jobs

Last year, small businesses created an estimated 82 per cent of all new private-sector jobs in Ontario.

Ontario promised to support job creation by reducing the payroll tax burden on small business.

In the 1996 Budget, the Government announced that the Employer Health Tax would be eliminated for the first $400,000 of payroll, effective January 1, 1999. A full 88 per cent of Ontario private-sector employers would no longer have to pay this job-killing payroll tax.

EHT cut accelerated by six months

I am proposing to accelerate the final phase of this exemption. In order to give effect to the $400,000 exemption beginning July 1, 1998, I will introduce legislation to increase the payroll tax exemption from $300,000 of payroll to $350,000 of payroll for the entire 1998 taxation year, delivering the exemption a full six months ahead of schedule.

A promise made, a promise kept.

Small Business Tax Rate Cut in Half

Many individual small business owners have told us that further cuts to small business taxes would help them to create even more jobs.

Small business tax rate cut in half to 4.75 per cent

Today, I am pleased to announce that the Government will introduce legislation to cut the small business corporations tax rate in half to 4.75 per cent — the lowest rate in Canada — over the next eight years. Under this legislation, the tax rate on eligible small business income would be reduced from 9.5 per cent to 9.0 per cent immediately, and would be reduced each year thereafter until 2006, when it would be one-half of the current rate. This tax cut will help more than 90,000 small businesses continue to grow and create jobs in the province.

We have been told by small business that certainty boosts business confidence and encourages job creation. To ensure that small businesses can be certain of receiving the full benefit of this cut, proposed legislation will confirm the entire eight-year reduction.

Commercial and Industrial Property Taxes Cut by Half a Billion Dollars

Three months ago, I offered to match dollar-for-dollar cuts in above-average business property taxes. I am pleased to announce that the Province will do its part.

We will introduce legislation to ensure an eight-year plan to reduce commercial and industrial education tax rates in municipalities where these tax rates are above the provincial average. Provincial business education taxes will be cut by more than $500 million from current levels, starting with a $64 million cut this calendar year. The cut will be $128 million in 1999 and the balance will be phased in over the remainder of the eight-year program.

Cutting high business education tax rates

A promise made, a promise kept.

Lower property taxes will increase the competitiveness of Ontario businesses and help them to create more jobs.

Local governments also need to cut taxes to create jobs and stimulate economic growth in their communities. Only a few of Ontario's 650 municipalities have announced decisions on 1998 property taxes to date.

Some communities, such as Milton, Nepean and the Township of Haldimand, are leading the way and have announced plans to cut municipal property taxes. Some municipalities have announced plans for a tax freeze and a balanced budget including the cities of Toronto, Niagara Falls, Kingston and Owen Sound, and the towns of Fort Frances and Kenora.

Other municipalities have demonstrated a solid record on holding the line on taxes, including the cities of Brantford, Stratford and Cornwall, and the towns of Prescott, Blind River and Parry Sound.

The City of Mississauga, under the dynamic leadership of Mayor Hazel McCallion, has an enviable record in this regard.

After municipal budgets have been set for 1998, the Government will begin a new dialogue with municipalities and taxpayers to find the most effective ways to further reduce property taxes, while maintaining important services.

Investing in Jobs for the Future, Today

In the 1997 Budget I announced the creation of the Ontario Research and Development Challenge Fund. The $500 million Fund supports leading-edge R&D through partnerships between Ontario's research institutions and the private sector.

Today, I would like to announce four investments approved in the Challenge Fund's first competition.

Laurentian University in Sudbury will establish a new Research and Development Program for Sustainable Mining that will develop innovative mining technology.

The Samuel Lunenfeld Research Institute at Mount Sinai Hospital, a world leader in medical research, will set up a program in Biomedical Research for the 21st Century.

The University of Waterloo and the University of Toronto will each establish complementary research laboratories to develop computer technologies for telecommunications services.

Every one of these initiatives has attracted substantial private-sector funding. I would like to thank Dr. Cal Stiller, Chair of the Ontario R&D Challenge Fund Board, for his fine leadership in making the R&D Challenge Fund a high-impact program.

These are only a few of the many excellent proposals to be approved that the Challenge Fund is supporting. My colleague, the Honourable Jim Wilson, Minister of Energy, Science and Technology, will announce other investments in the coming weeks.

The Province will accelerate $135 million of the R&D Challenge Fund commitment over the next three years to match the Canada Foundation for Innovation's initial awards to Ontario's research institutions. I would like to thank Dr. Peter George, President of McMaster University, and Dr. William Leggett, Principal of Queen's University, for making this suggestion on behalf of all Ontario universities.

Jobs Through Telecommunications

The Government will extend the Telecommunications Access Partnerships (TAP) program by investing $30 million over the next three years to further encourage innovative ways to make use of the information highway. The TAP program is opening new paths for the sharing of information in health care and education.

I am also introducing initiatives to support the interactive digital media, sound recording, and computer animation and special effects industries, which have the potential for rapid expansion and job creation.

Jobs in Transportation

A vibrant economy depends on high-quality, high-capacity transportation networks. We are investing more than $820 million in 1998-99 to upgrade Ontario's highways, including our northern highway network. The Minister of Transportation, the Honourable Tony Clement and the Minister of Northern Development and Mines, the Honourable Chris Hodgson, will announce further details.

Jobs in Agriculture

The resurgence of the Ontario agriculture and food sector — led by new investments, innovations in value-added food products, and record levels of exports — continues to be a key component in the growth of the provincial economy.

The Government's plan is working to ensure that more good things grow in Ontario. Jobs grow in Ontario.

Jobs in Tourism and the Arts

More than 200,000 people have jobs in tourism, one of Ontario's most important industries.

Attractions and destinations such as Niagara Falls, Point Pelee, Toronto's CN Tower, Georgian Bay's 30,000 Islands, Science North, Lake of the Woods, Ottawa's Rideau Canal and Upper Canada Village, are just some of the reasons why 33 million visitors are drawn to Ontario annually. Additional tourism marketing will attract more visitors and create more tourism jobs.

Ontario was once a leader in tourism promotion. We have listened to Ontario tourism operators' call to better promote Ontario. We are responding by investing $120 million to market Ontario better, over the next four years.

Increased tourism will also be encouraged by a new self-sustaining Cultural Attractions Trust Fund that will support the tourism potential of major events at cultural centres such as the McMichael Art Gallery, the Royal Botanical Gardens, the Art Gallery of Ontario and the Royal Ontario Museum.

A new $25 million Arts Endowment Fund will match and invest money for participating arts organizations that contribute to Ontario's vibrant culture and diverse economy. I would like to thank the former Lieutenant Governor of Ontario, and current Chair of the Ontario Arts Council, the Honourable Hal Jackman, for this recommendation.

Preserving the Environment, Creating Jobs

A clean environment keeps Ontario competitive and makes the province an attractive place to live and work.

Ontario will provide $20 million in funding for the Natural Areas Protection initiative to protect important natural heritage sites and environmentally sensitive lands. The funding will assist in acquiring lands to develop a system of parks and protected areas in the Niagara Escarpment, the Rouge Valley and the Linde Marsh.

I am announcing $10 million in funding for Fish and Wildlife Protection and Enhancement, to improve the province's fish and wildlife management.

I am also announcing the creation of the Ontario Great Lakes Renewal Foundation with an initial endowment of $5 million to attract contributions for clean-up efforts around the Great Lakes.

Helping People with Disabilities Get Jobs

Society benefits when all of its members are given an opportunity to contribute in a meaningful way in the workplace.

The Government is committed to supporting people with disabilities through a variety of measures, including the creation of an *Ontarians with Disabilities Act*. We will promote opportunities for people with disabilities by increasing accessibility to employment, transportation, education and training. People with disabilities can, want to, and do contribute to a thriving economy.

The Government has already taken people with disabilities off welfare through the Ontario Disability Support Program.

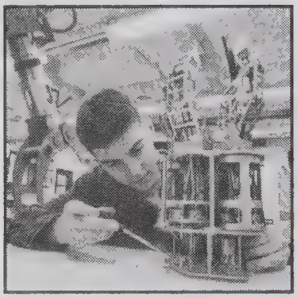
Today, we propose to provide a new, accelerated tax incentive that would support the efforts of businesses to accommodate people with disabilities. This measure would assist thousands of businesses each year in providing increased access and job opportunities for people with disabilities.

My colleague, the Honourable Isabel Bassett, Minister of Citizenship, Culture and Recreation, will announce details.

As well, we propose that the Retail Sales Tax rebate for personal use vehicles purchased to transport people with physical disabilities be expanded to include additional family members and non-family care-providers.

Ontario's Youth and Tomorrow's Jobs

Ontario youth are benefitting from the province's strong economic growth. However, too many young people are still unemployed.



The Minister of Agriculture, Food and Rural Affairs, the Honourable Noble Villeneuve, will announce details of a four-year, $35 million Rural Youth Jobs Strategy shortly.

The Premier recently announced the 1998 Summer Jobs Strategy, a $51 million program that will help 48,500 youth find jobs this summer, twice as many young people as were helped in 1995.

The number of students attending colleges and universities in Ontario actually increased in the last decade, even though the population of 18- to 29-year-olds declined.

The Minister of Education and Training, the Honourable David Johnson, will announce how an additional $29 million in annual grants, phased in over three years, will recognize the contribution of Ontario universities that have increased students' access to post-secondary education, and enhanced their job opportunities.

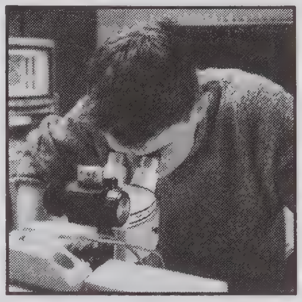
We are excited about the federal government's new Millennium Scholarship Fund, which will provide an estimated $1.2 billion in scholarships to Ontario's college and university students over 10 years, beginning in 2000.

$9 billion new student assistance program

We have a plan to create a new student assistance program, which will be designed to meet the needs of Ontario students and to limit student debt. We will combine Ontario's share of the Millennium Fund with both federal and Ontario spending on student loans to create a new Canada-Ontario Millennium Fund for Students that will invest more than $9 billion in student assistance over 10 years.

In the coming months, the Minister of Education and Training will propose details of this new program. This program will

address all elements of student assistance, including harmonizing the patchwork of federal-provincial programs, and simplifying administration. It will allow us to take major steps forward in supporting college and university students, and maintaining their access to an affordable education.



A promise made, a promise kept.

Learning Opportunities

Access is not just about financial resources. More must be done to help students with learning disabilities attend college and university.

The Learning Opportunities Task Force for the integration and support of learning disabled students in post-secondary education, which I asked Dr. Bette Stephenson to lead in last year's Budget, has completed its initial work and will be reporting on selected pilot projects over the next few weeks.

Nine pilot projects have been selected, involving nine colleges of applied arts and technology and four universities.

Among those institutions that have been selected are York University, the University of Guelph, Cambrian College and an innovative partnership among our three french language colleges — la Cité collégiale, le Collège Boréal and le Collège des Grands Lacs.

The needs of both french language and aboriginal students are addressed by the proposals.

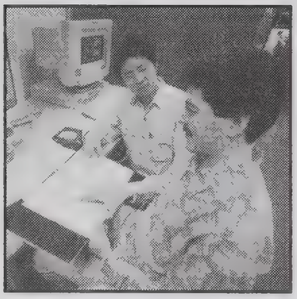
The selected pilot projects will provide post-secondary programs needed by more than 2,000 learning disabled students over the next five years.

A promise made, a promise kept.

Colleges have benefitted from a one-year extension of the Ontario Student Opportunities Trust Fund. They have raised an additional $30 million, which will be matched by the Province. The more than $600 million in total in the Fund will

help 185,000 college and university students over the next decade.

A promise made, a promise kept.



The Government, in partnership with the private sector, will reward excellence in graduate studies in science and technology through new graduate scholarships. Seventy-five million dollars will be awarded to students over the next 10 years through this initiative.

In addition, the Government, in partnership with the private sector, will provide $75 million over 10 years for new research excellence awards to help our world-class researchers attract talented people to their research teams. The Minister of Education and Training and the Minister of Energy, Science and Technology will provide more detailed information about these awards.

Access To Opportunities Program

In the last 10 years, two out of every three new jobs in Ontario have been created in knowledge and technology-based industries.

Demand by Ontario businesses for skilled employees consistently exceeds the supply of graduates from our colleges and universities. The Canadian Advanced Technology Association has told us that there will be a shortage of 42,000 computer scientists and electrical and computer engineers over the next five years. They said we must "double the pipeline" of graduates in these programs to remain competitive.

Doubling opportunities for students in high-tech programs

Today, I am announcing a special Access To Opportunities Program to enable twice as many students to enroll in computer science and high-demand engineering programs. The Government will invest $150 million over the next three years to implement this program, which will provide up to 17,000 new opportunities for students each year. The Government will apply a "market test" by requiring industry to match start-up costs.

In the 1997 Budget, I announced a government-industry partnership to create a world-class Animation, Communications Design and Technology Centre at Sheridan College. Today, I am committing more than $10 million for another four projects that will enhance strategic skills.

We will support a new partnership between Georgian College and the Industrial Research and Development Institute, made up of 250 member firms that employ more than 150,000 people. The partnership will provide advanced training in automotive parts design and manufacturing technology.

I would like to thank Norman Jewison for his efforts to enhance new media skills training, and announce that we will support this work at the Canadian Film Centre.

We will support comprehensive skills training for the telecommunications industry through the Telecommunications Learning Institute at Humber College.

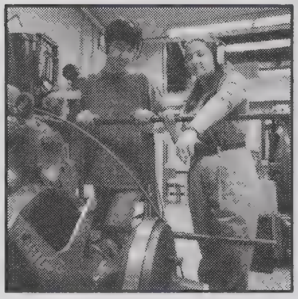
Our support of metal machining, and engineering and information technology training at Conestoga College will help to provide the skilled workers required by many southwestern Ontario firms.

The Province has set aside an additional $20 million this year to seek and support more of these effective partnership projects to develop critical skills now. The Minister of Energy, Science and Technology will lead consultations with industry, educational institutions and training providers, and begin making approvals in June.

In addition to these new initiatives, we have a comprehensive plan to strengthen training in the workplace and get thousands of unemployed Ontarians back to work. We will use the Employment Insurance dollars that Ontario's employers and employees have contributed and deserve.

Over the next 10 years, our made-in-Ontario workplace training and employment plan will direct some $9.5 billion to Ontario's priorities. It will provide opportunities for 750,000 Ontarians per year.

$9.5 billion plan for training and employment



Our plan will give apprenticeship the status and recognition it deserves. We need to dramatically change and redesign Ontario's apprenticeship program to make it more relevant to the workplace.

We will work with employers to provide work placements, internships and on-the-job training to meet critical skill shortages. We will work with municipalities to ensure that welfare recipients have a chance to get marketable skills and meaningful work experience. We will provide young people with jobs and training.

This is Ontario's plan. It is imperative that the federal and provincial governments work together to put taxpayers' dollars to the best use by providing every person with an opportunity for a lasting and meaningful job.

Emphasizing Work, Not Welfare

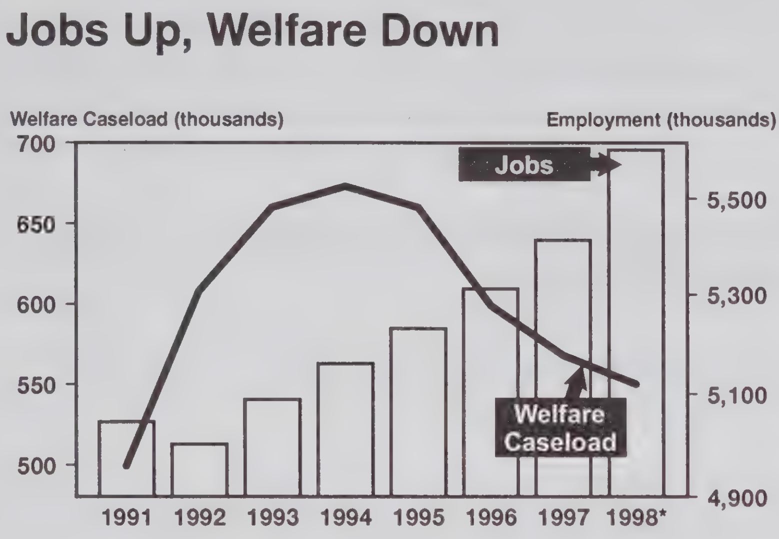
The Government's reforms to welfare are producing impressive results. Since June 1995, the welfare caseload has gone down by nearly 20 per cent.

More than a quarter million people are no longer dependent on welfare. That is equivalent to the combined populations of cities the size of Ajax, Belleville, North Bay, Owen Sound and Sarnia.

Ontario Works is all about helping people on welfare get jobs. Already, more than 240,000 people have benefitted by acquiring skills, confidence and contacts.

A promise made, a promise kept.

The Government will take further steps to ensure that welfare recipients continue to find routes to jobs and independence.



*Employment projected. Welfare caseload represents January to March.
Source: Statistics Canada, Ontario Ministry of Community and Social Services and Ontario Ministry of Finance.

The Learning, Earning and Parenting (LEAP) Program will provide $25 million in child care subsidies and other supports to help single parents on welfare finish school.

A promise made, a promise kept.

An additional $10 million will be made available for child care assistance for other participants in Ontario Works to provide greater flexibility and choices for parents.

The Honourable Janet Ecker, Minister of Community and Social Services, will have more to say about these important initiatives shortly.

Increased Support for Modest-Income Taxpayers

For the third year in a row, the Government proposes to give extra tax cuts to modest-income taxpayers through the Ontario Tax Reduction program.

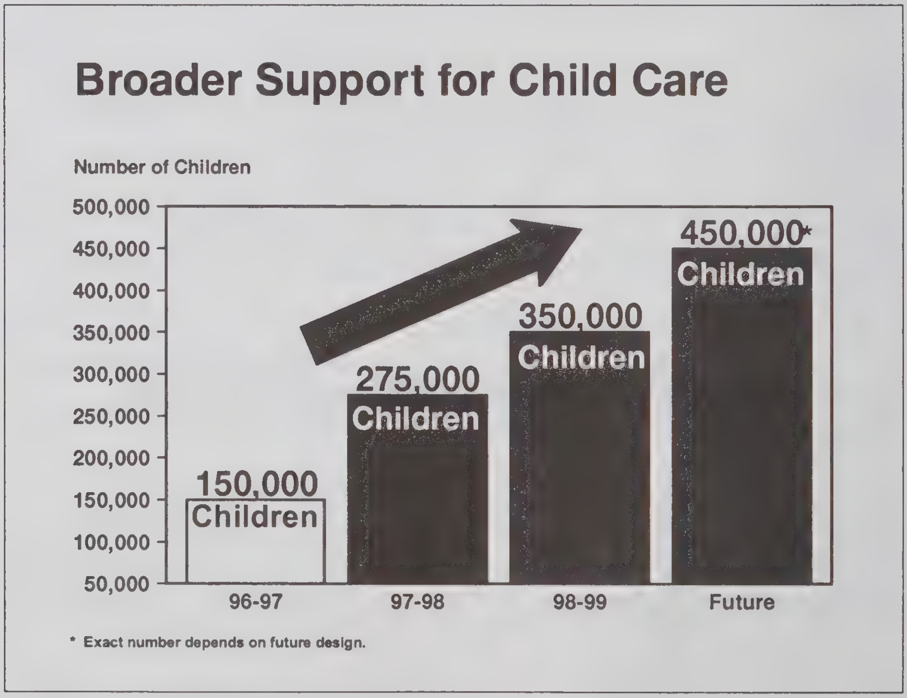
The Ontario Tax Reduction adjustments made by this Government will benefit an additional 360,000 taxpayers. Seventy thousand Ontarians will have their Ontario income tax eliminated, and a further 290,000 taxpayers will have their income tax reduced by more than 30 per cent.

New Ontario Child Care Supplement for Working Families

We recognize the importance of providing assistance to working families.

$140 million new child care supplement for working families

In the 1997 Budget, I announced a $40 million child care tax credit. Ontario intends to combine that money with an additional $100 million in 1998-99 to create a new program that supports 350,000 young children in working families. Under this program, modest- and middle-income working families would receive a new Ontario Child Care Supplement for Working Families of up to $1,020 for each child under age seven. Next year we plan to invest more than $200 million in this program.



The Government proposes to provide businesses with a new 30 per cent Workplace Child Care tax deduction for the capital cost of building or expanding on-site child care facilities, or for contributions to facilities in the community that care for the children of working parents.

The child care initiatives introduced by this Government would triple the number of children who benefit from child care assistance to an estimated 450,000 children.

A promise made, a promise kept.

Strengthening Health Care

We all want to be sure that the excellent health care services we rely on will be there when we, our family members, or friends require help.

Despite the fact that the federal government reduced funding for the program that supports health care by $2.4 billion over the last three years, this year Ontario will spend $18.5 billion on health, up $300 million from the 1998-99 spending announced in the December 1997 Economic Outlook and Fiscal Review.

$18.5 billion for health care

Despite the fact that the federal government now spends only $125 for health care for each person in Ontario, this year the Ontario Government is spending $1,639 to meet the health needs of each Ontarian.

Despite the fact that the federal government collects twice as much in personal income tax revenue from each taxpayer in Ontario than the provincial government collects, it provides less than eight cents of every dollar spent on health care, **while Ontario pays the rest.**

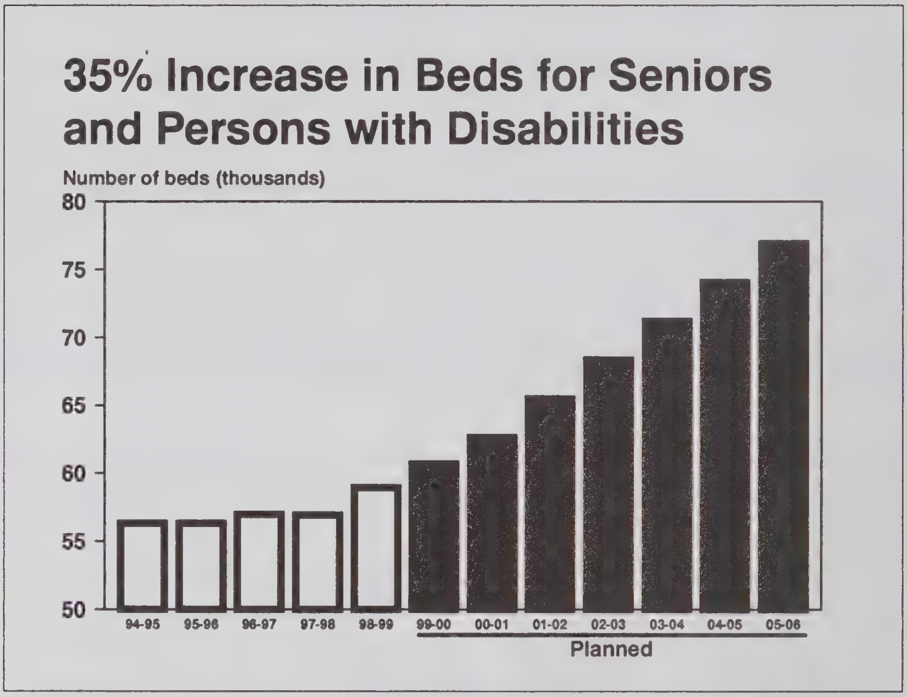
While the federal government has all but abandoned the health care needs of Ontarians, our Government is improving the services people have now, and expanding those that they will need in the future.

Not only is this year's projected health care spending of $18.5 billion an increase of more than $1 billion from 1995-96, it is more than any Ontario government has ever spent on health care.

A promise made, a promise kept.

$1.2 billion for 33,500 senior care beds

My colleague, the Honourable Elizabeth Witmer, Minister of Health, announced that community-based health services will be expanded over the next eight years to better care for an aging population. The Province is adding 20,000 and upgrading another 13,500 senior care beds. The Government will invest $1.2 billion to increase beds for seniors by 35 per cent and expand health care services for seniors, people with continuing care needs, and children with disabilities.



The Minister of Health responded quickly to the recommendations of the Hospital Emergency Room Task Force by announcing $75 million over the next two years to support opening hospital beds in times of peak demand. The Government will also increase training for critical care and emergency room nurses.

In addition, $55 million will be spent over two years to create 1,700 senior care beds in available space in hospitals.

All of these changes mean improved health services. They also mean jobs. The increase in senior care beds will lead to the creation of 27,500 nursing, personal care and other health care jobs and 42,500 construction jobs. Our emergency room investments will provide jobs for 1,000 nurses.
With a $1 million investment, 100 nurses will receive the most up-to-date training in critical and emergency care.

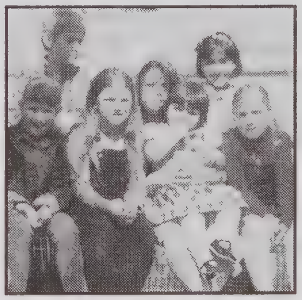
I am also announcing $5 million to enhance community-based nursing care in community health centres and other agencies.

To ensure a more coordinated approach to the future of the nursing profession, the Government will establish a Nursing Services Task Force.

The Government will provide $300 million for medical equipment renewal to ensure that the health care sector has the capacity to maintain the excellence of its medical equipment. This will assist the health sector in addressing Year 2000 issues.

Helping Ontario's Children

The Government is committed to improving the health and safety of children in Ontario.



Ontario will increase funding for the Healthy Babies, Healthy Children program by $10 million in 1998-99, growing to a $50 million annual program by 2000-01. The program screens all newborns, identifies those at high risk, and ensures that they receive community services.

Prior to this Budget, I held 20 roundtable discussions with more than 200 groups representing a broad cross-section of Ontario society. I have spoken personally with hundreds of individuals who have shared their ideas with me.

$170 million more for Ontario's Children's Aid Societies

Representatives of Children's Aid Societies told me that more needs to be done to help our most vulnerable children. We listened and we are responding by providing Children's Aid Societies with an additional $170 million over the next three years. These resources will be directed at increasing the number of child protection staff, providing better training for front-line workers, and revitalizing foster care.

A promise made, a promise kept.

Educating Our Children

Ontarians understand that the most effective education dollars are those spent in the classroom.

In March, the Minister of Education and Training announced the fair funding formula for education. The Government has defined classroom spending and focused elementary and secondary education dollars there, while adding $583 million in new spending in the classroom.

A promise made, a promise kept.

$1.2 billion Class Size Protection Fund

Students achieve better results when they are in smaller classes and can receive more individual attention from their teachers. That is why Ontario introduced the Class Size Protection Fund.

This $1.2 billion Fund will end the trend toward larger classes and ensure that the average class size, on a board-wide basis, is no larger than 25 students in elementary school and 22 students in secondary school.

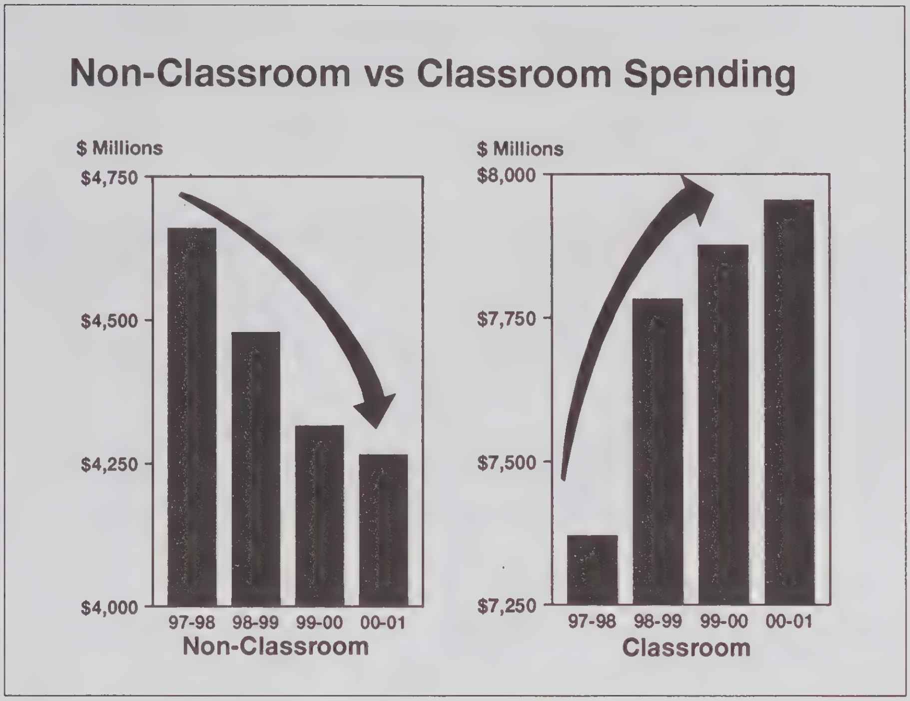
$1 billion for children with special needs

For students with special needs, we are providing $1 billion each year in a separate envelope to ensure that this funding indeed goes to special education.

Stable spending for education

The Minister of Education and Training has committed to stable spending for elementary and secondary education over the next three years.

A promise made, a promise kept.



Today, I am pleased to announce that over the next two years, the Government, together with private-sector partners, will invest $130 million to strengthen the Internet networking of our education system and promote life-long learning.

The Government will provide $100 million for the purchase of textbooks and other learning materials so that all elementary students will have access to the very latest information and knowledge. This will double the amount of money available for books in the next school year. Funding of $150 will be provided for each and every elementary school student.

$100 million for new textbooks

In addition, the Minister of Education and Training will announce more than $12 million in funding in 1998-99 for initiatives to update laboratories and buy equipment, double the grants to school boards for math and science tutors, and expand standardized testing.

One of the most innovative ideas I heard in roundtable discussions came from Rich Richardson, a volunteer with the High Road Foundation. In response to Mr. Richardson's request, the Foundation will be given funding for a pilot project to look at ways to help our young people stay in school.

To complement the introduction of the new fair funding model for education, the Government will provide one-time adjustment funding of $69 million to assist school boards in a smooth implementation of the funding model.

Agreement good for education, students, teachers, taxpayers

The Government and the Ontario Teachers' Federation, representing 155,000 teachers, 90,000 deferred pensioners, 57,000 pensioners, surviving spouses, and their families, have reached an agreement on changes to the Teachers' Pension Plan.

This agreement is good for education, good for students, good for teachers and good for taxpayers.

It will allow more than 18,000 teachers to retire early and will open up many thousands of teaching opportunities for highly qualified graduates of Ontario's teachers' colleges.

Taxpayers will no longer have to make $33 billion in unnecessary special payments to the Teachers' Pension Plan over the next 31 years.

Safety in Our Communities

Everyone has a right to a sense of personal safety and to feel assured that their family is safe. The Government will spend more than $150 million over five years on new community safety initiatives.

The Community Policing Partnership with municipalities will result in the hiring of hundreds of new front-line police officers to serve our communities.

Other initiatives include a new OPP Cadet Training Program, a Rural Crime Prevention Strategy, the establishment of a multi-force "Anti-Biker Gang Squad," and a proposal to more than double fines for running red lights.

We will ensure that the appropriate judicial infrastructure is in place to support these initiatives.

All of these initiatives have benefitted from the efforts of my friend and colleague, Bob Runciman, the member for Leeds-Grenville, to find ways to make our communities safer.

Conclusion

Today's Budget does indeed build on the foundations we have laid for a greater and stronger Ontario.

The 36 tax cuts I am proposing in this Budget will bring to 66 the number of taxes we have cut in less than three years. Tax cuts that are creating jobs and economic growth.

But tax cuts don't just create opportunities — they ensure a quality of life that allows all Ontarians to take advantage of these opportunities, today and in the future.

As President John F. Kennedy said in 1962,

> Wealth is the means and people are the ends. All our material riches will avail us little if we do not use them to expand the opportunities of our people.

In Ontario, tax cuts are helping welfare recipients find hope, and are contributing to child care initiatives that support almost half a million children and their families.

They are assisting hundreds of thousands of post-secondary students to get the education they deserve, and they are aiding our Government as we remove the barriers that keep people with disabilities and other Ontarians from sharing fully in our thriving economy.

Tax cuts are contributing to significant new investments in the classroom — in textbooks province-wide, and they are allowing for record investments in health care to ensure that our families have the services they require, and that our seniors have the care and dignity they deserve.

In the words of Premier Harris,

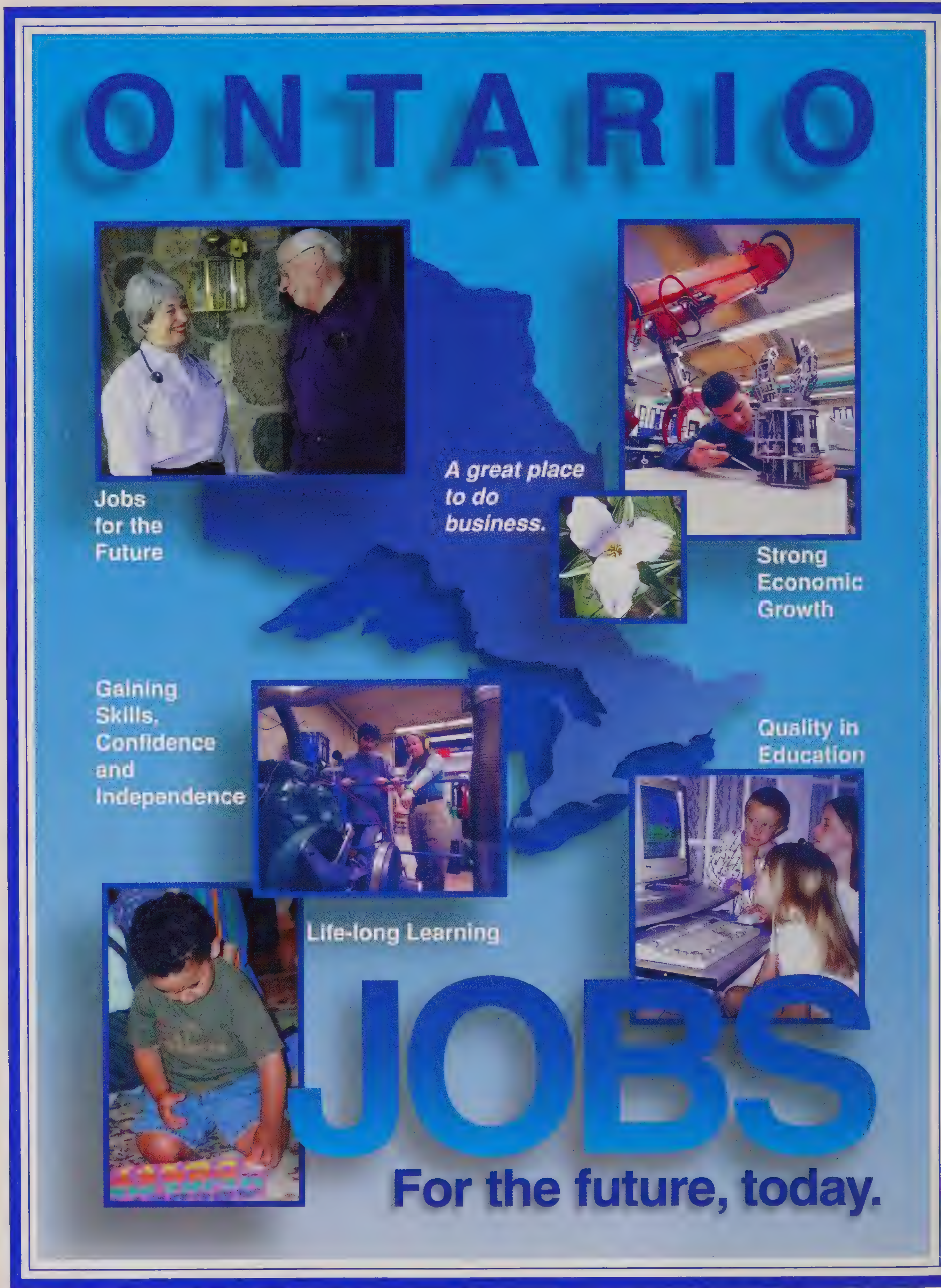
> Our goals have always been straightforward: to build a climate where jobs and prosperity are available equally and to all people; to maintain the quality of life that we enjoy in Ontario; and to ensure a healthy and secure future for our children, a future full of hope and opportunity.

As today's Budget confirms, Ontario is poised to enter the 21st Century with a confidence that many thought impossible just three years ago.

With jobs and growth.

With prosperity today and optimism for a better tomorrow.

With promises made. Promises kept.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Strong Economic Growth
Gaining Skills, Confidence and Independence
Quality in Education
Life-long Learning
JOBS
For the future, today.

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Jobs for the Future, Today

The Honourable Ernie Eves, Q.C.
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Members of the Legislative Assembly of Ontario by
The Honourable Ernie Eves, Q.C.
Minister of Finance
May 5, 1998

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PAPER A

Ontario Economic Outlook

Highlights

Ontario's economic future is bright. Job creation has accelerated and is expected to remain strong. Consumers are enjoying rising income, lower taxes and low interest rates. With confidence in the economy strong, consumer spending on items such as cars, new homes and furniture has risen sharply. Businesses, brimming with new orders, are reinvesting profits in new equipment and more office space to create jobs, expand capacity and increase productivity.

Economic Outlook at a Glance

(Annual Average)

	1997	**1998**	**1999**	**2000**
Real GDP growth (per cent)	4.8	3.5	3.0	3.0
Employment (thousands)	5,413	Up to 5,629	Up to 5,800	Up to 5,973
Unemployment Rate (per cent)	8.5	7.1 to 7.4	6.4 to 7.1	6.2 to 6.9
CPI Inflation (per cent)	1.9	1.4	1.6	1.7

Sources: Statistics Canada and Ontario Ministry of Finance.

*"Nineteen ninety-seven saw Ontario on a very **strong upward economic path** with the momentum likely to continue through 1998 and 1999...a strong domestic recovery is now in full swing in the province."* ***CIBC, February 1998***

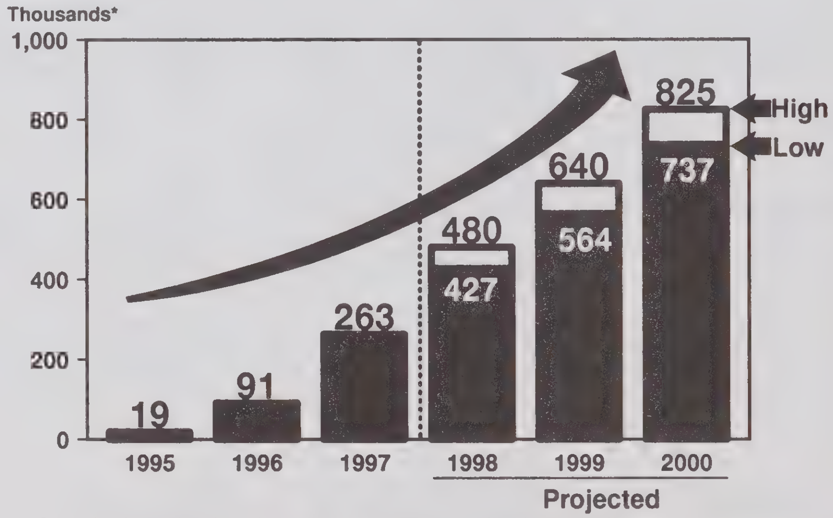
Job Creation Accelerating

Tax cuts, low interest rates and a high level of competitiveness are invigorating Ontario's business climate. Strong consumer and business demand have resulted in impressive gains in private-sector job creation.

- The private sector in Ontario has generated 345,000 net new jobs over the September 1995 to February 1998 period. This increase accounts for 53.1 per cent of the national total.

- Job growth is accelerating. From February 1997 to February 1998, net private-sector job creation totalled 265,000, the largest 12-month gain in Ontario's history.

Jobs Created Since Mid-1995



* Cumulative change since June 1995 to actual or projected year-end employment level.
Sources: Statistics Canada and Ontario Ministry of Finance.

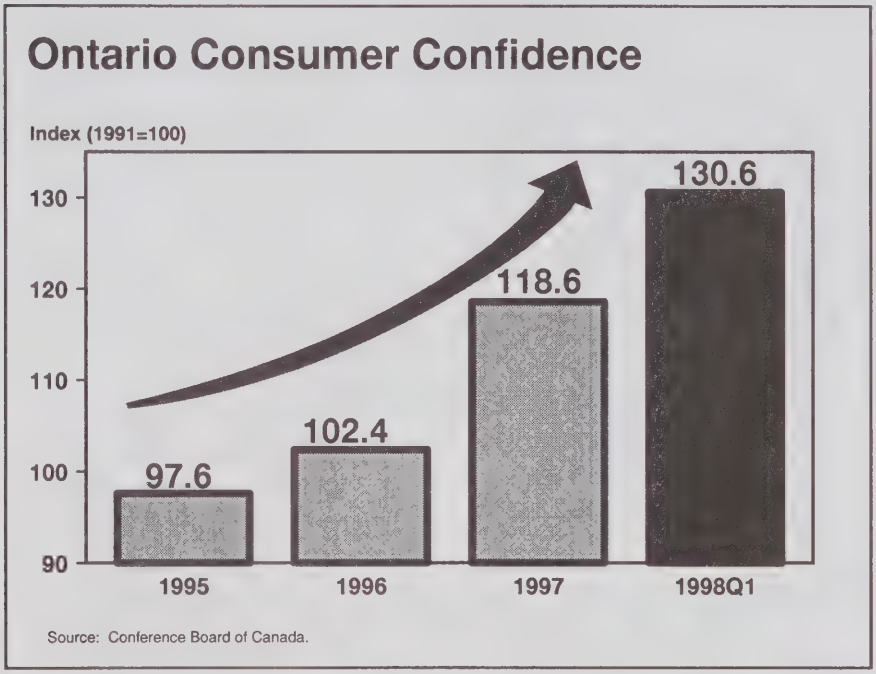
- The strong economy will support average annual job growth of 3.5 to 4.0 per cent in 1998, 2.5 to 3.0 per cent in 1999, and 2.5 to 3.0 per cent in 2000.

- The unemployment rate is projected to fall from 8.5 per cent in 1997 to a range of 6.2 to 6.9 per cent in 2000.

Confidence Rising

High consumer and business confidence have led to strong consumer spending and business investment, resulting in solid gains in real output and employment.

> *"Ontario's momentum will continue this year...healthy domestic demand—underpinned by* ***high levels of consumer and business confidence****—alongside continued strength in the province's main U.S. export market will contribute to another strong economic advance."* ***Scotiabank, April 1998***



- Ontario consumer confidence has reached its highest level in nine years.

- The Conference Board's index of consumer confidence has risen steadily and strongly since the end of 1995. Over this period, the index has risen by 47.4 per cent. Tax cuts, strong job creation and low interest rates have supported Ontarians' confidence in their economic prospects. This has supported their willingness to make important investment and spending decisions such as buying a new home.

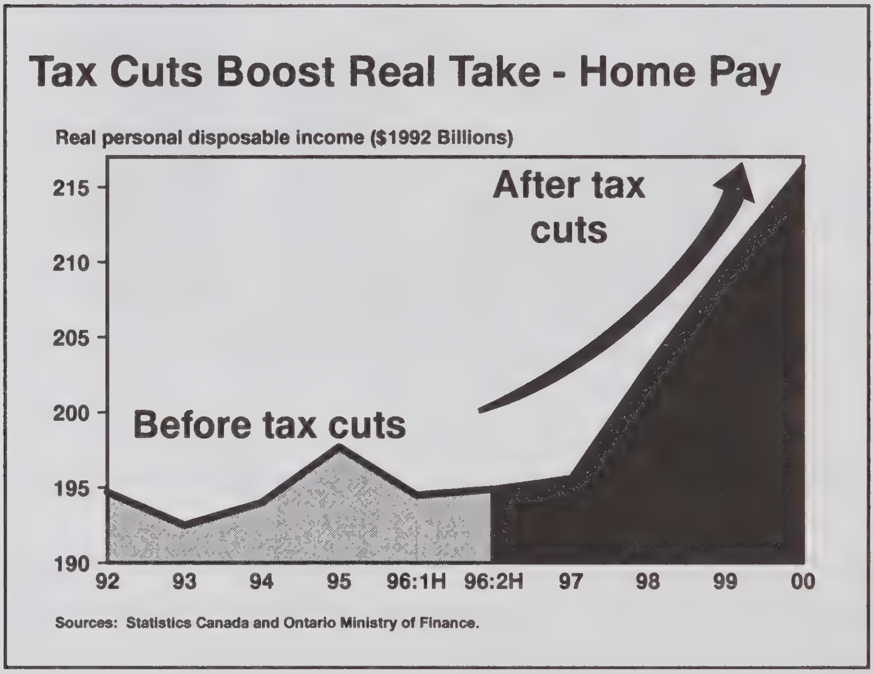
Business confidence is close to record-high levels, reflecting rising corporate profits and the improved business climate. Ontario's corporate profits before taxes rose 21.6 per cent in 1997.

Strong Consumer Demand

Tax cuts, rising personal income and low interest rates will drive continuing solid growth in consumer spending. Real consumer spending is projected to rise by 3.5 per cent in 1998 and expand by an average 2.8 per cent over the 1999 to 2000 period.

> *"**Consumer spending** in Ontario will continue to be boosted by additional employment gains and further reductions in personal income tax rates."* ***TD Bank, March 1998***

- Real consumer spending surged 3.9 per cent in 1997, the strongest performance in almost a decade. Retail sales in 1997 increased by 7.4 per cent, with sales by furniture and appliance stores up 16.5 per cent. Over the first two months of 1997, Ontario retail sales are up 10.0 per cent over the same period last year. In 1997, unit auto sales in Ontario rose 19.3 per cent, the strongest gain in 12 years.

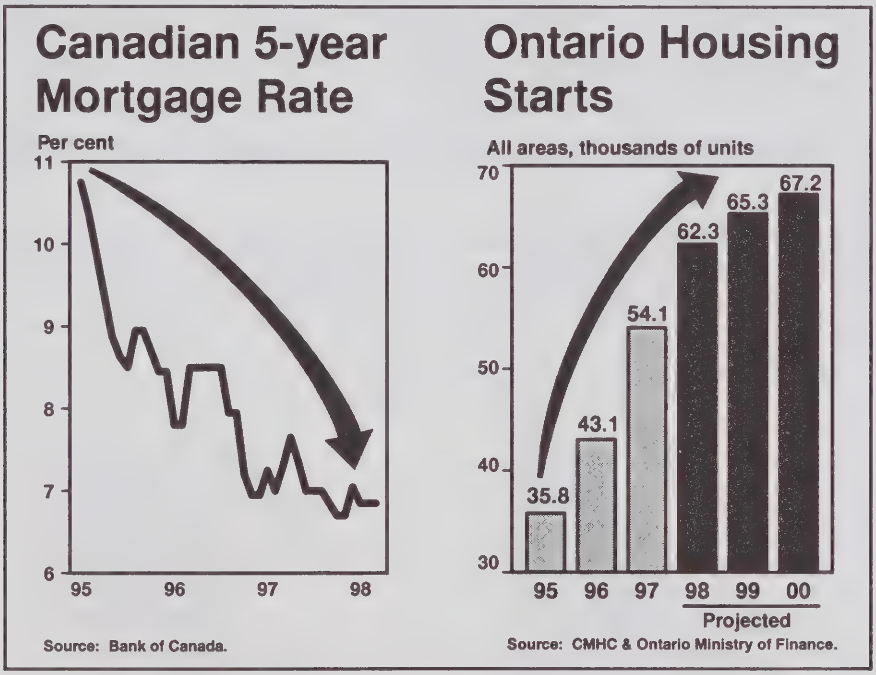


- Consumer spending is projected to grow in line with personal disposable income gains. Ontario's tax cuts and strong job gains are projected to strengthen real disposable income growth to 3.8 per cent in 1998 and an average 3.3 per cent over the 1999-2000 period.

Housing Maintains Momentum

> *"Ontario's housing market is in the midst of a strong recovery triggered by low interest rates and rising household incomes, significant pent-up demand and strong population growth."*
>
> ***Royal Bank, 1998***

The number of housing starts rose by 25.6 per cent in 1997 to 54,100 units. Demographic trends suggest that Ontario needs 65,000 to 70,000 additional housing units per year.



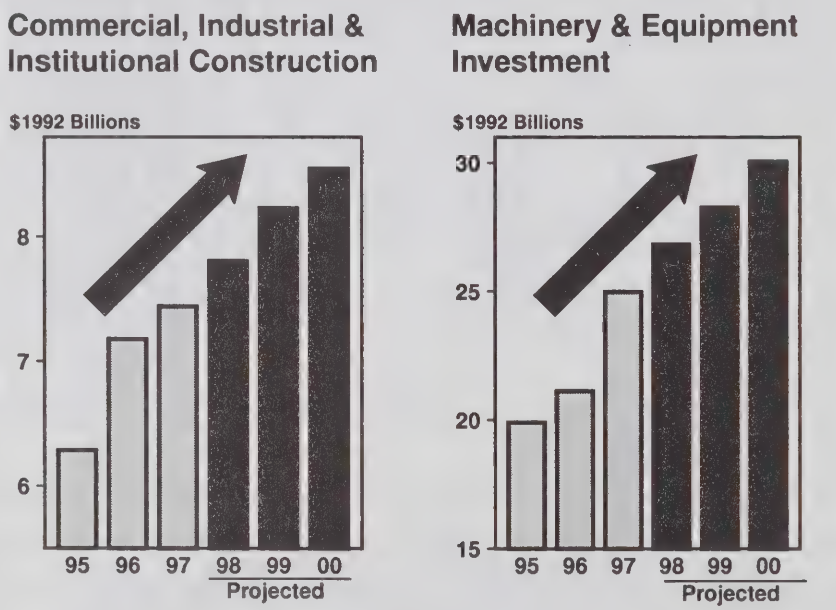
The Land Transfer Tax (LTT) rebate for families buying new homes for the first time will continue to support the housing industry. The construction industry created 26,000 new jobs in 1997 and will remain a mainstay of the Ontario economy over the next three years.

Ontario housing starts are expected to rise to 62,300 in 1998, an increase of 15.2 per cent, to 65,300 in 1999, and to 67,200 in 2000. Residential construction in Ontario is projected to rise by 9.9 per cent in 1998 and an average of 5.0 per cent in 1999 and 2000.

Investment Rising

Investment in Ontario has grown strongly over the past two years. This increased investment has enhanced the competitive position of Ontario's businesses, and will lead to greater job creation, future increases in productivity and additional output growth in the overall economy.

> *"Ontario is well positioned for a second consecutive year of solid growth. The economy entered 1998 with all cylinders firing, and growth shows little sign of abating. Domestic demand will again drive overall activity, powered by consumers who are bullish about near-term economic prospects and eager to spend. The strength of current business activity is putting pressure on existing capacity, which in turn will spur* ***investment in plant and equipment over the next two years."*** ***The Conference Board, April 1998***



Sources: Statistics Canada and Ontario Ministry of Finance.

- Ontario real business investment in machinery and equipment rose 25.5 per cent over the 1995 to 1997 period. Machinery and equipment investment is projected to increase by 7.4 per cent in 1998 and by an average 5.8 per cent in 1999 and 2000.

Real investment in commercial, industrial and institutional construction rose 18.4 per cent from 1995 to 1997. Spending in this sector is expected to rise by 4.9 per cent in 1998 and an average of 4.7 per cent in 1999 and 2000.

- Major investments, for example, are being made by Honda, Toyota, Chrysler, Inco, Dofasco, TrizecHahn and the Greater Toronto Airport Authority.
- According to Royal LePage, the Toronto office vacancy rate fell to 9.4 per cent in the first quarter of 1998.
- Industrial real estate development is beginning to grow strongly. Commercial and industrial building permits rose 32.6 per cent in Ontario in 1997.

Growing Exports Boost Growth

Ontario's export orientation has increased sharply since the Canada-U.S. Free Trade Agreement, rising from 28.5 per cent of GDP in 1989 to 45.8 per cent in 1997. International exports as a share of the economy is larger in Ontario than in any other province or any of the major industrial countries.

> *"Ontario's economy shifted into top gear in 1997, growing at an estimated rate of 4.8%, spurred by* ***robust exports*** *to the U.S. and a rekindling of interest-sensitive sectors such as housing and big-ticket consumer items. Ontario's economic expansion will continue to be* ***broadly based****, with* ***robust output growth*** *across a wide array of industries....Ontario's labour market will continue to brighten this year and next in light of the healthy outlook for production."* ***Bank of Montreal, April 1998***

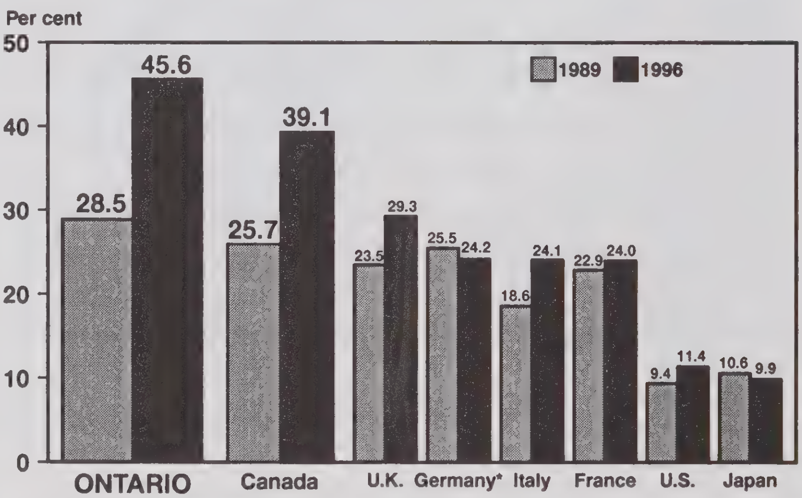
Exports create jobs in Ontario

Ontario's real exports are projected to grow at an average 5.4 per cent rate over the 1998 to 2000 period, outpacing overall economic growth. Ontario's real trade balance is expected to rise, making a net contribution to GDP growth over the medium term.

- The auto sector remains Ontario's leading export industry, accounting for 45 per cent of total international exports in 1997. The industry achieved an all-time record output level of 2.47 million units in 1997. The strong competitive position of Ontario's auto industry is based on efficiency and high quality. With demand expected to be firm, the industry is expected to continue growing over the 1998 to 2000 period.

- Knowledge-intensive, high-technology industries will be the leading job-creating sector of the economy. Telecommunications and computer-related Canadian exports have risen by 84 per cent in the last three years. Although high-tech industries directly produced only 7.6 per cent of Ontario's output in 1996, they accounted for about 42 per cent of Ontario's growth since 1990.

Exports as a Share of GDP



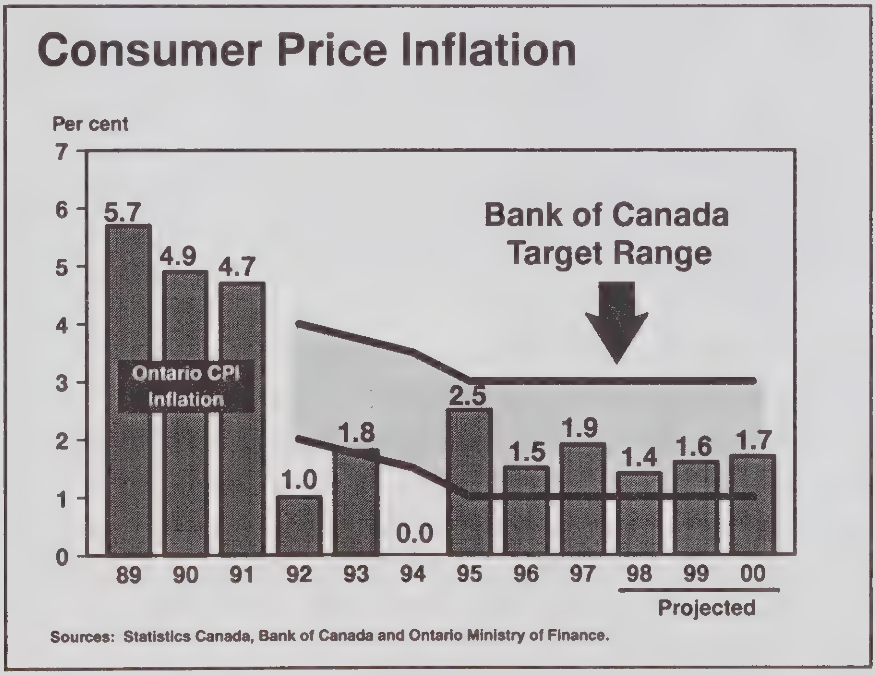
*1991 and 1996.
Sources: OECD, Statistics Canada and Ontario Ministry of Finance.

Continued Low Inflation

The Canadian inflation rate was 0.9 per cent in March 1998, below the low end of the Bank of Canada's target range.

Over the next few years, inflation is expected to remain in the lower half of the Bank of Canada's 1 to 3 per cent target band. Low inflation reflects the continuing availability of productive capacity and rising productivity in Ontario, combined with strong global competition intensified by the depreciation of East Asian currencies. Continuing low inflation should help to strengthen the Canadian dollar over the medium term.

Sustained low inflation will, in turn, contribute to a healthy economic environment by helping to keep interest rates low and strengthening business and consumer confidence.



The International Economic Setting

Ontario's economy is diversified and open. The external environment has become increasingly important with exports making a larger contribution to Ontario economic growth. World economic events such as the unfolding Asian crisis affect Ontario mainly through their impact on Ontario's major trading partners, world capital flows and commodity prices.

Ontario's major export market, by far, is the United States, followed by the European Union and then Japan.

- The United States accounts for about 90 per cent of Ontario's international exports. According to the average private-sector forecast, U.S. real growth will slow from 3.8 per cent in 1997 to 2.8 per cent in 1998 and 2.3 per cent in 1999. Events in Asia, a strong U.S. dollar and slower inventory accumulation and investment will contribute to this growth slowdown. This will keep inflationary pressures in check and provide stability to Ontario export growth.

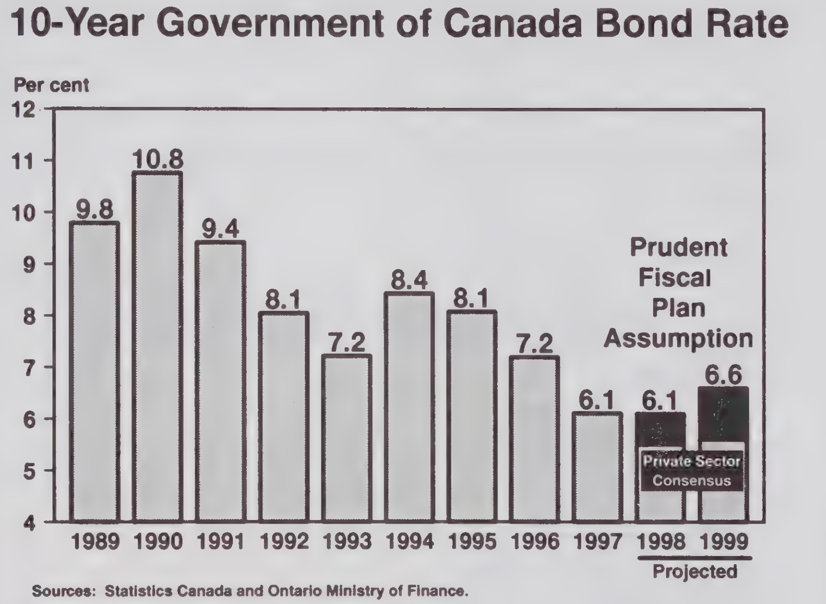
- Modest economic growth in western Europe is expected to continue over the next two years, as the European Monetary Union is launched on January 1, 1999.

- Despite recent stimulative fiscal measures, the Japanese economy remains stalled and faces significant downward pressure from adjustments in other Asian economies.

- The Asian crisis is likely to have a limited impact on Ontario's economy. Slower economic growth, lower asset prices and depreciating local currencies have reduced Asian demand for the rest of the world's products. However, total Ontario exports to the most affected countries are equivalent to less than 1.0 per cent of our GDP. Some important Ontario industries, including auto, electrical products and steel, are facing increased competition as a result of Asian currency depreciation.

Continuing Low Interest Rates

Declining government deficits and low inflation will continue to keep interest rates near historically low levels and support the dollar over the next few years. The 10-year Government of Canada Bond rate is near its lowest level in more than 30 years. Interest rates in Canada are expected to remain below U.S. rates over the next two years. This will help to drive job creation, investment and economic growth.



Private-sector forecasters expect a fairly stable interest rate environment over the next two years. The private sector expects the 10-year Government of Canada bond rate to be 5.5 per cent in 1998, 60 basis points lower than last year. Ontario's interest rate projection builds in a prudence factor above the private-sector average.

Cautious Interest Rate Assumptions
(Average per cent)

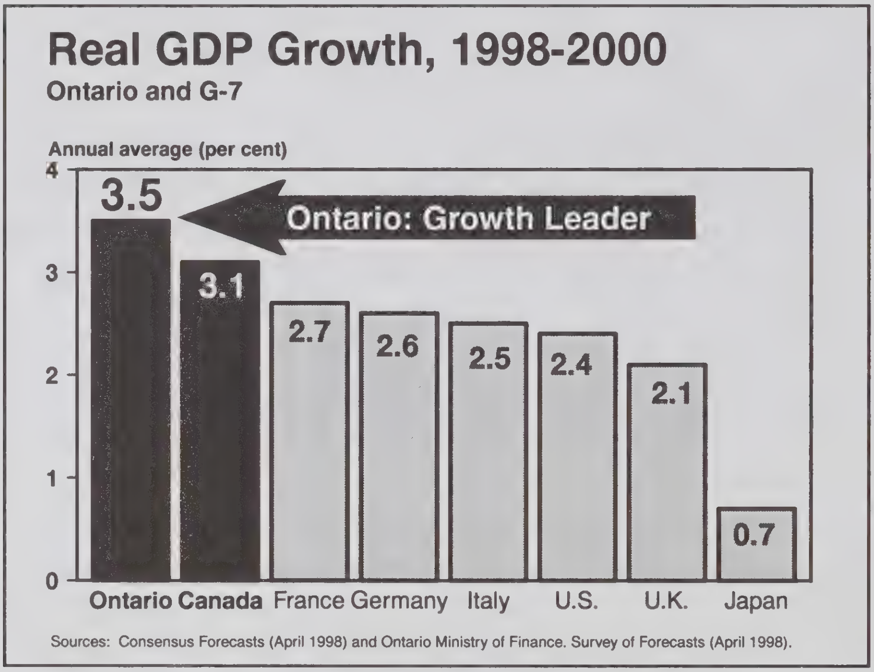
	1997	1998 Jan. -Apr.	1998 May -Dec.	1999
3-month treasury bill				
Private-sector survey average	3.3	4.5	4.7	4.6
Ontario's prudent assumption			5.7	5.6
10-year government bonds				
Private-sector survey average	6.1	5.4	5.5	5.6
Ontario's prudent assumption			6.5	6.6

Sources: Bank of Canada, Ontario Ministry of Finance and Ontario Finance Financial Market Survey (April 1998).

Conclusion

The outlook for the Ontario economy is very positive. Job creation is continuing at a near record pace. Ontario's fiscal plan is based on cautious economic growth projections of real GDP growing by 3.5 per cent in 1998, 3.0 per cent in 1999, and 3.0 per cent in 2000. Private-sector economists are more optimistic, on average forecasting real growth of 4.0 per cent in 1998, 3.2 per cent in 1999, and 3.4 per cent in 2000.

Ontario is expected to achieve faster economic growth than Canada as a whole or any of the G-7 major industrial countries.



*"The Ontario **economy is booming!** The tax cuts are clearly working their way through."* ***Nesbitt Burns, April 1998***

The Ontario Economy, 1995-2000
(per cent change)

	Actual			Projected		
	1995	1996	1997	1998	1999	2000
Real Gross Domestic Product	**3.2**	**1.1**	**4.8**	**3.5**	**3.0**	**3.0**
Personal consumption	1.7	1.8	3.9	3.5	2.9	2.7
Residential construction	-14.3	14.2	16.5	9.9	5.8	4.2
Non-residential construction	0.6	14.2	3.7	4.9	5.4	3.9
Machinery and equipment	9.0	6.1	18.3	7.4	5.4	6.3
Exports	9.4	4.5	9.3	6.3	5.1	5.0
Imports	8.0	3.4	12.1	5.9	4.9	4.8
Nominal Gross Domestic Product	**5.7**	**2.5**	**5.2**	**4.6**	**4.7**	**4.8**
Other Economic Indicators						
Retail sales	3.1	0.3	7.4	6.2	4.5	4.6
Housing starts (000s)	35.8	43.1	54.1	62.3	65.3	67.2
Personal income	3.9	1.0	2.9	4.9	4.4	4.8
Corporate profits	21.1	-3.4	21.6	7.0	4.4	5.2
Ontario Consumer Price Index	2.5	1.5	1.9	1.4	1.6	1.7
Labour Market						
Employment*	1.4	1.5	1.9	3.5-4.0	2.5-3.0	2.5-3.0
Unemployment rate* (per cent)	8.7	9.1	8.5	7.1-7.4	6.4-7.1	6.2-6.9

Sources: Statistics Canada and Ontario Ministry of Finance
* Based on Labour Force Survey.

Appendix

Sensitivity of Ontario Deficit to Changes in Economic Assumptions

In order to develop a cautious fiscal plan, this Budget is based on prudent assumptions about interest rates and economic growth. Interest rates are assumed to be one percentage point higher than the private-sector consensus forecast, and our economic assumptions are deliberately set below the private-sector consensus and Ontario's potential.

Cautious Economic Growth Projections (per cent)

	1998	1999	2000
Ontario Real GDP Growth			
Private-sector high	4.6	3.5	3.8
Private-sector low	3.6	2.8	3.0
Private-sector survey average	4.0	3.2	3.4
Ontario's prudent projection	3.5	3.0	3.0

Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (April 1998)
Note: The private-sector average is based on nine respondents for 1998, eight for 1999 and five for 2000.

The following table shows the sensitivity of the deficit to the direct impact of lower interest rates on public debt interest (PDI) and the impact of stronger economic growth on revenues and expenditures. These are partial calculations. For example, the impacts do not incorporate the economic impact of lower interest rates on economic activity.

Impact of Changes in Fiscal Plan Economic Assumptions on the Ontario Deficit (Change from base level)

	Impact on Deficit ($Millions)	
	1998-99	1999-2000
100 Basis Point Fall in Canadian Interest Rates	-120	-265
1 Percentage Point Increase in Real GDP Growth	-515	-1065

Sources: Ontario Ministry of Finance
Note: Second-year figures are cumulative change from base level.

PAPER B

Ontario's Fiscal Plan

Introduction

In November 1995, the Government announced a Balanced Budget Plan to eliminate the deficit by the year 2000-01. With the 1998 Budget, the original 1998-99 deficit target of $4.8 billion will be cut by almost $0.6 billion, and set at $4.2 billion.

The 1998-99 deficit of $4.2 billion represents a reduction of $7.1 billion, or 63 per cent, from the $11.3 billion potential deficit that faced the Government upon assuming office in June 1995. The deficit target for 1999-00 remains unchanged at $2.6 billion.

The Government has consistently achieved lower deficits than called for in the Balanced Budget Plan. With an interim deficit of $5.2 billion, 1997-98 is the third consecutive year in which the Province has overachieved its deficit target.

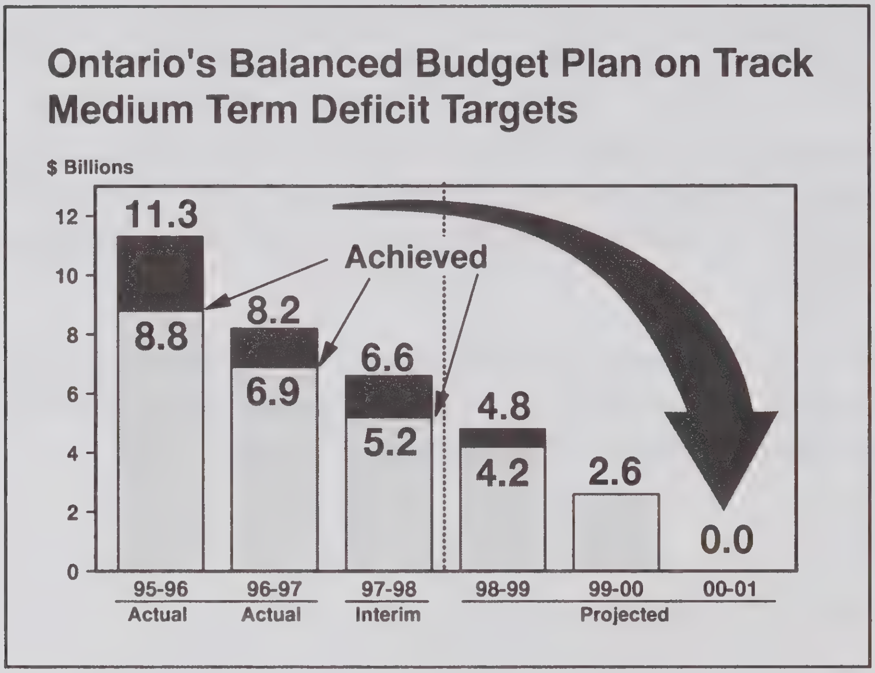
In addition, the Government is continuing to promote and support needed restructuring in health care, education and municipalities by investing heavily in these priority sectors.

This paper:

- examines Ontario's recent fiscal record;
- reviews the interim financial results for 1997-98;
- provides details on the 1998-99 Budget Plan; and
- projects the medium-term fiscal outlook.

On Track to Balance the Budget

The Balanced Budget Plan released in November 1995 specified declining annual deficit targets, culminating in a balanced budget by the year 2000-01. Due to improved fiscal performance, the 1998-99 deficit target of $4.8 billion will be cut by $0.6 billion and is set at $4.2 billion. Ontario remains on track to meet the final two years of deficit targets outlined in the Plan.



- 1997-98 was the third consecutive year in which the Balanced Budget Plan deficit target was overachieved.
  - Upon assuming office in June of 1995, the Government faced a potential deficit of $11.3 billion. The Government set a deficit target of $9.3 billion for 1995-96, moving quickly to get the Province's finances back in order.
  - The 1995-96 deficit target of $9.3 billion was overachieved by $508 million, and in 1996-97, the Budget target of $8.2 billion was overachieved by $1,275 million.
  - At $5.2 billion, the interim 1997-98 deficit is $1,377 million below the Budget target of $6.6 billion.

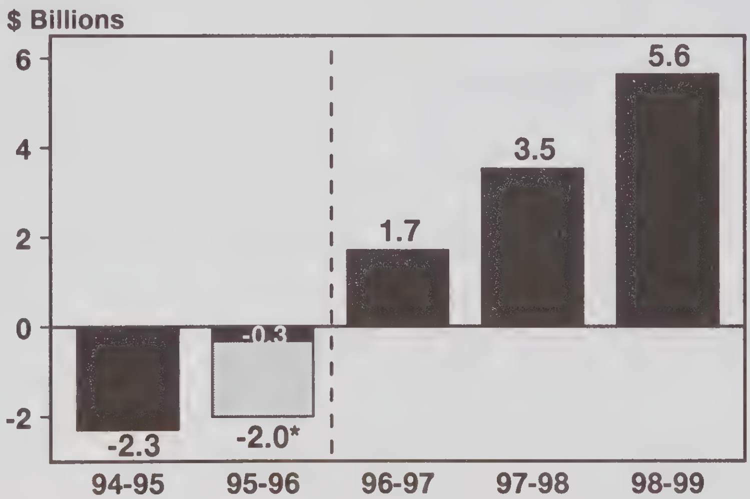
Ontario's Fiscal Record

A Growing Operating Surplus Needed to Pay Public Debt Interest

The Province's fiscal performance continues to show solid progress. Ontario achieved an important fiscal milestone in 1996-97 by recording an operating surplus of $1.7 billion, the first surplus since 1990-91. The operating surplus increased to $3.5 billion in 1997-98 and is projected at $5.6 billion for the current fiscal year.

The operating balance is an indicator used by the Ontario and federal governments. It is calculated as the difference between government revenue and total spending on all programs, not including public debt interest. By achieving an operating surplus, the Province no longer borrows money to pay for on-going programs.

Operating Balance Now in Surplus

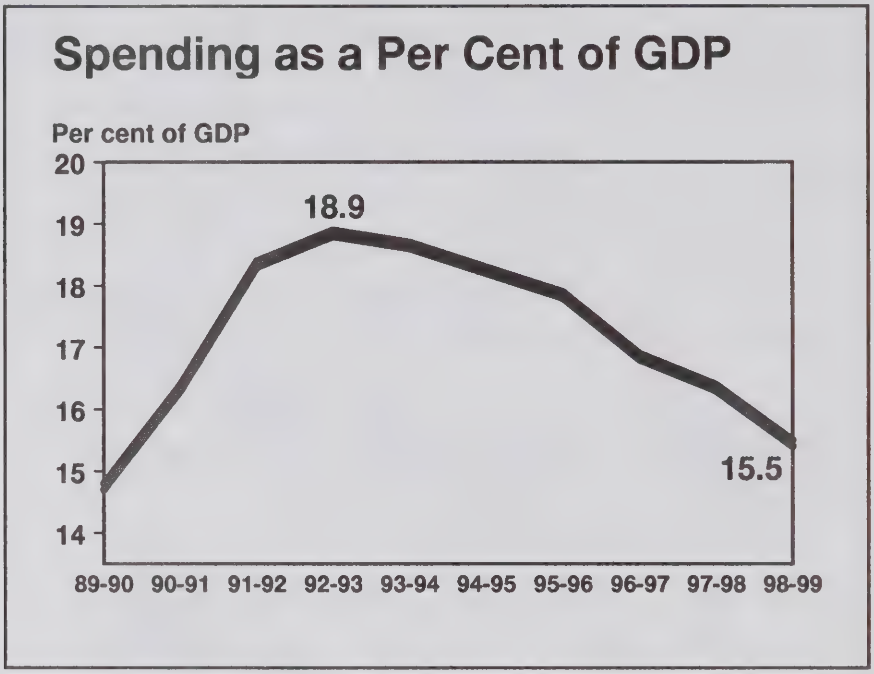


* Potential operating deficit of $2.0 billion when the government assumed office in June, 1995

- The operating deficit in 1994-95 was $2.3 billion. After reducing the operating deficit to $0.3 billion in 1995-96, the Government achieved an operating surplus of $1.7 billion by 1996-97, which has since grown to $5.6 billion this year.

Spending Returning to a Sustainable Level

In the early 1990s, Provincial spending as a share of the economy climbed from about 15 per cent of Gross Domestic Product (GDP) to almost 19 per cent. By focusing on priority areas such as health care and education, and improving the efficiency and effectiveness of government services, Provincial spending has been reduced to 16.4 per cent of GDP in 1997-98 and 15.5 per cent in 1998-99.

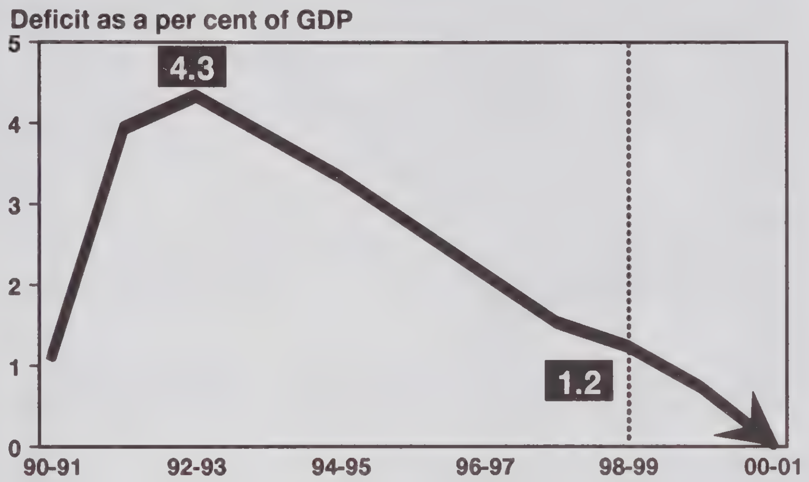


- Between 1980 and 1990 spending ranged from 14 per cent to 16 per cent of GDP. The actions taken by the Government have returned spending as a share of the economy to within that range.

Deficit as a Per Cent of GDP Declining

The success of the Government's policy of controlling spending and cutting taxes to stimulate the economy can be seen in the declining ratio of the deficit as a share of the Ontario economy. This year, Ontario's deficit will fall to 1.2 per cent of GDP.

Deficit Falls to 1.2% of GDP in 1998-99

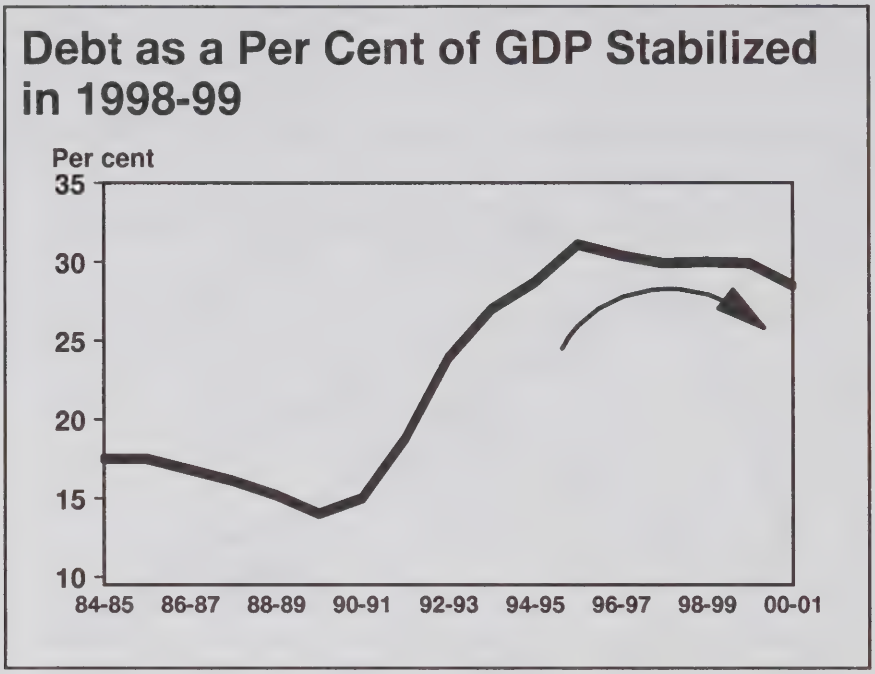


- High deficits and a shrinking economy in the early 1990s combined to push Ontario's deficit to 4.3 per cent of provincial GDP by 1992-93. The deficit will be 1.2 per cent of GDP this year.

- The deficit is projected to fall to 0.7 per cent of GDP in 1999-00, and zero in 2000-01.

Debt as a Per Cent of GDP Stabilized in 1998-99

As a result of the Government's Balanced Budget Plan, the ratio of debt to GDP will stabilize and begin to decline after 1998-99.



- After stabilizing at just over 30 per cent over the period 1996-97 to 1998-99, Ontario's debt as a share of GDP will drop to 30.0 per cent in 1999-00 and fall annually thereafter. Debt is projected at 28.6 per cent of GDP in 2000-01.

- In 1995-96, $5.6 billion of debt was pre-borrowed to meet 1996-97 financing requirements and to take advantage of favourable market conditions at that time. This borrowing caused the temporary upswing in the ratio of debt to GDP in 1995-96.

1997-98 In-Year Fiscal Performance

A Third Year of Overachieving the Deficit Target

For the third year in a row, the Balanced Budget Plan deficit target has been overachieved. At $5.2 billion, the interim deficit for 1997-98 is $1,377 million below the Budget target of $6.6 billion.

1997-98 In-Year Fiscal Performance ($ Millions)

	Budget Plan	Interim	In-Year Change
Revenue	48,400	52,110	3,710
Expense			
Programs	41,780	42,963	1,183
Restructuring and Other Charges	610	3,211	2,601
Total Program Expense	42,390	46,174	3,784
Capital	2,750	2,411	(339)
Public Debt Interest	9,190	8,728	(462)
Total Expense	54,330	57,313	2,983
Reserve	650	--	(650)
Deficit	6,580	5,203	(1,377)

- Revenue was $3,710 million higher than projected in the 1997 Budget Plan. Higher revenue reflects both the strength of the economy and the cautious nature of the Budget Plan.
  - The increase in Personal Income Tax (PIT) revenue includes $990 million to take account of a higher estimate of 1996-97 PIT revenue than included in the 1996-97 Public Accounts. Under the accounting guidelines set out by the Public Sector Accounting and Auditing Board (PSAAB), the difference between the higher estimate and the 1996-97 Public Accounts estimate is included in 1997-98 revenue.
- Total expense was $2,983 million above the Plan, largely due to a $2,601 million in-year increase in Restructuring and Other Charges to accommodate necessary investments in health care, education and municipalities, and a $530 million increase in transitional expense related to Local Services Realignment (LSR).
- The $650 million Reserve, included in the 1997 Budget to protect the Budget Plan against unforeseen risks such as unexpected and adverse changes in the economic outlook, was not used and contributed to deficit reduction.

Ontario Opportunities Fund

The Ontario Opportunities Fund was established in the 1996 Budget to provide for debt and deficit reduction. The Fund receives savings realized from overachievement of deficit targets, proceeds from major asset sales, and contributions from Ontarians.

The $1,377 million overachievement of the 1997-98 deficit target has been applied to the Ontario Opportunities Fund.

Ontario Opportunities Fund
($ Millions)

		Interim 1997-98
Provincial Purpose Debt at April 1, 1997		101,511
Add: Borrowing requirements to finance projected deficit of $6,580 million and loans and investments in agencies	5,466	
Decrease in liquid reserves	(552)	
Increase in debt:		4,914
Debt before Ontario Opportunities Fund		106,425
Less:		
Ontario Opportunities Fund		
Overachievement in 1997-98 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	1,377	
Fund balance applied to Debt Reduction		(1,377)
Provincial Purpose Debt at March 31, 1998		105,048

* There were no major asset sales in 1997-98. Contributions from Ontarians amounted to $14,825 in 1997-98.

- Over the past three years, the Ontario Opportunities Fund has reduced the Province's planned borrowing by a cumulative total of $3,160 million. As a result, lower borrowing saved the Province $180 million in public debt interest costs in 1997-98.

1997-98 Restructuring Charges

In recognition of the extent of restructuring currently underway in health care, education and municipalities, the Government made significant investments in these key areas. These investments will enable service providers in these sectors to become more efficient and effective. Government restructuring decisions made in-year also led to one-time charges.

1997-98 Restructuring and Other Charges ($ Millions)

		Interim 1997-98
Health		
Health Care Restructuring Investments		880
Education		
School Board Transition Costs	268	
School Board Capital Debentures	971	
		1,239
Municipal Restructuring		
Toronto Transit Commission 5-Year Capital Transfer and Sheppard Subway	828	
Increase in Provision for Local Services Realignment (LSR) Exit Costs	91	
Municipal Restructuring Fund	75	
Financial Assistance for the City of Toronto	50	
Highway Transfers	50	
Non-profit and Co-operative Housing	23	
		1,117
Other		
1997-98 Provision for OPS Severance	175	
Decrease in Provision for OPS Severance (1995-96 and 1996-97)	(200)	
		(25)
Total Restructuring and Other Charges		**3,211**

- Total Restructuring and Other Charges amounted to $3.2 billion in 1997-98. This represents an increase of $2.6 billion over the $610 million provision initially set aside for restructuring in the 1997 Budget.

- The 1997 Budget included a provision of $450 million to support restructuring in the health care system. As a result of additional directions from the Health Services Restructuring Commission (HSRC) and revised information from the hospital sector, this provision has been increased by $430 million to $880 million to enable a more efficient and effectively managed health care system to better meet the needs of patients.

- To assist school boards in needed restructuring such as the amalgamation and start-up costs of new boards, the Province has invested $268 million in transition funding. A further $117 million will be provided in 1998-99 for a total of $385 million.

- The Province has also invested $971 million to assume responsibility for school boards' debt service costs over the next three years, during which restructuring will occur. The Province, by taking on this responsibility, has ensured that school boards will be able to access capital markets efficiently.

- As part of Local Services Realignment (LSR), which requires that municipalities become fully responsible for all aspects of transit operations and funding, the Province will make a one-time payment of $828 million to discharge provincial responsibilities flowing from cancellation of the Toronto Transit Commission (TTC) 5-year Capital Transfer and Sheppard Subway Agreement.

- The provision for Local Services Realignment exit costs expensed in 1996-97 has been increased by $91 million. This is mainly due to increased cost estimates arising from slower-than-expected implementation of Local Services Realignment, and more recent financial information.

- The Government of Ontario has announced a number of other initiatives aimed at supporting restructuring in the municipal sector. These initiatives include the Municipal Restructuring Fund ($75 million), financial assistance for the City of Toronto ($50 million), additional funding for highway transfers ($50 million), and funding for co-operative and non-profit housing capital reserves ($23 million).

- The 1997 Budget Plan provided $137 million in operating funding for 1997-98 under the Municipal Capital and Operating Restructuring Fund (MCORF). As announced in December 1997, this funding has been reallocated as part of the creation of the Special Circumstances Fund and the Special Transition Assistance component of the Community Reinvestment Fund.

- Decisions made over the past year have led to Ontario Public Service (OPS) restructuring charges of $175 million for employee severance costs in 1997-98. In addition, the provisions for OPS employee severance charges in 1995-96 and 1996-97 have been revised downward resulting in a reduced expense of $200 million. This downward revision is due to an increased number of employees being either redeployed within the OPS or transferred to other employers under alternative service delivery initiatives. In total, these changes have resulted in a net reduction in OPS severance expense of $25 million in 1997-98.

Local Services Realignment

The goal of the Local Services Realignment process is to reduce waste and duplication, improve accountability and provide better government services at a lower cost to Ontario taxpayers. Provincial and municipal services are being realigned in order to provide the best possible services at the lowest possible cost.

Responsibility for a number of programs was transferred to municipalities on January 1, 1998. As a transition measure and to ensure continuity of service, the Province is continuing to deliver some of these programs on behalf of municipalities, pending program transfer. During the transition period, municipalities will reimburse the Province for these expenditures on their behalf.

Local Services Realignment Transition Measures: Impact on Fiscal Plan ($ Millions)

	1997-98	1998-99
Transitional Expenditures		
Social Housing - Operating	198	850
- Capital	17	48
Social Assistance	185	654
Child Care	15	58
Public Health and Land Ambulances	52	206
Property Assessment	31	123
GO Transit - Operating	10	46
- Capital	15	35
Provincial Offences Act	8	17
Total Increase in Expenditures	**530**	**2,037**
Reimbursement of Expenditures from Municipalities	**(469)**	**(1,996)**
Provincial Offences Act Revenue	**(27)**	**(87)**
Net Impact on Deficit	**34**	**(46)**

Note: Numbers may not add due to rounding

- The Province will continue to provide non-profit housing and Ontario Housing Corporation (OHC) operating subsidies and payments as well as capital grants to the OHC. These amounted to $215 million in 1997-98 and will total $898 million in 1998-99.

- The Province provided $200 million in 1997-98 and will provide $712 million in 1998-99 to deliver the municipal share of Social Assistance and Child Care services under the new cost-sharing arrangements.
- The Province provided $52 million in 1997-98 and will provide $206 million in 1998-99 for Public Health and Land Ambulance services.
- The Province provided $31 million in 1997-98 and will provide $123 million in 1998-99 for Property Assessment services.
- The Province provided $25 million in 1997-98 and will provide $81 million in 1998-99 for interim financing of GO Transit services.
- The Province will also continue to administer the Provincial Offences Act until municipalities assume responsibility, subject to the approval of the Legislature.
- Provincial revenues increased by $496 million in 1997-98 and will increase by $2,083 million in 1998-99 as a result of reimbursements of expenditures from municipalities for these programs and Provincial Offences Act revenues.
- When combined with reimbursements from municipalities for municipal policing costs, total revenues for Local Services Realignment programs were $540 million in 1997-98 and will be $2,261 million in 1998-99.
- During the period that the Province continues to have a role in the delivery of these services, alternative ways to streamline billing and simplify administration will be explored, as well as any necessary changes to legislation.

1997-98 In-Year Revenue Changes

Total revenue in 1997-98 was $52,110 million, $3,710 million above the $48,400 million level projected in the 1997 Budget. The strength of the economy, the cautious nature of the Budget projections and $496 million for reimbursement of expenditures from municipalities for Local Services Realignment contributed to the revenue increase. Revenue was also increased by the inclusion of $990 million in 1997-98 Personal Income Tax (PIT) to take account of 1996-97 PIT revenue, which is now estimated to be higher than the amount included in the 1996-97 Public Accounts.

Summary of In-Year Changes to Revenue in 1997-98 ($ Millions)

Taxation Revenue		
Personal Income Tax	1,702	
Corporations Tax	925	
Retail Sales Tax	395	
Employer Health Tax	103	
Land Transfer Tax	105	
All Other (Including Gas, Fuel and Mining Profits Taxes)	103	
		3,333
Federal Payments		
Canada Health and Social Transfer	(268)	
Canada-Ontario Infrastructure Works	(81)	
All Other (Including Young Offenders and Vocational Rehabilitation)	(10)	
		(359)
Income from Government Enterprises		
Ontario Casino Corporation	20	
Liquor Control Board of Ontario	20	
Ontario Lottery Corporation	(71)	
Other	(33)	
		(64)
Other Revenue		
Reimbursement of Expenditures from Municipalities (Including *Provincial Offences Act*)	496	
Royalties	99	
Fines and Penalties	50	
Vehicle and Driver Registration Fees	57	
Sales and Rentals	51	
All Other (Including LLBO Fees and Licenses, Other Fees and Licenses)	47	
		800
Total In-Year Revenue Changes		**3,710**

- Personal Income Tax revenue was $1,702 million above the 1997 Budget projection as a result of stronger 1997 income growth and higher 1996 PIT assessments than previously estimated. Of the PIT increase, $990 million is due to higher estimated 1996-97 PIT than was reported in the 1996-97 Public Accounts. Under PSAAB guidelines, the difference between the higher estimate and the 1996-97 Public Accounts estimate is recorded in 1997-98.

- Corporations Tax revenue was $925 million higher than forecast in the 1997 Budget outlook due to robust corporate profit growth in 1997. Corporate profits in 1997 grew by 21.6 per cent, substantially faster than the 1997 Budget projection of 13.8 per cent.

- The strength of consumer and business spending in Ontario in 1997 pushed Retail Sales Tax revenue $395 million above the 1997 Budget projection.

- Employer Health Tax (EHT) revenue was $103 million above the 1997 Budget outlook due to faster than projected growth in incomes in 1997.

- The strong resale housing market increased Land Transfer Tax revenue by $105 million over the 1997 Budget.

- Transfers from the Government of Canada for 1997-98 are $4,936 million, $359 million lower than the 1997 Budget forecast. This largely reflects $268 million in lower-than-projected Canada Health and Social Transfer (CHST) payments for 1997-98 as a result of an increase in the value of Personal Income Tax. Under the federal CHST allocation formula, an increase in the value of Ontario's income tax points, transferred to Ontario in 1977, results in lower federal cash payments to the Province. Canada-Ontario Infrastructure Works program revenues for 1997-98 were $81 million lower than forecast in the 1997 Budget as a result of projects being deferred until 1998-99. Partially offsetting these decreases was $88 million in disaster relief funding associated with the February 1998 ice storm.

- Income from Government Enterprises was $64 million below the 1997 Budget projection. Income from the Ontario Lottery Corporation was down $71 million due to the cancellation of the introduction of Video Lotteries at race tracks and Charity Gaming Clubs. Partially offsetting this decline was higher income from the Ontario Casino Corporation and the Liquor Control Board of Ontario.

- Other Revenue was $800 million above the 1997 Budget projection primarily due to the inclusion of $496 million from reimbursement of expenditures from municipalities for Local Services Realignment. Total reported Local Services Realignment revenue of $540 million in 1997-98 includes this $496 million as well as $44 million for the reimbursement from municipalities for municipal policing costs, which was already included in the original 1997 Budget Plan. Higher Royalties, Fines and Penalties and Vehicle and Driver Registration Fees also contributed to the increase in Other Revenue.

1997-98 In-Year Operating Expense Changes

Operating expense for 1997-98 was $3,322 million higher than forecast in the Budget Plan, increasing from $51,580 million to $54,902 million. This increase is mainly due to a $2,601 million increase in Restructuring and Other Charges, a $498 million increase related to transitional measures associated with Local Services Realignment, and increased spending of $443 million in the Ministry of Health, partly offset by savings of $462 million in Public Debt Interest expense.

Summary of In-Year Operating Expense Changes ($ Millions)

		Interim 1997-98
Program Expense Changes:		
Restructuring and other charges -- In-year Increase	2,601	
Local Services Realignment -- Operating Transition Measures	498	
Teachers' Pension Plan Expense	226	
OHIP and Drug Programs -- Increased Utilization	200	
Ministry of Health -- Special Provision	144	
Broader Public Sector Proxy Pay Equity -- One-time Retroactive Payments	140	
School Boards funding -- Metropolitan Toronto and Ottawa	102	
Ice Storm -- Disaster Relief Support	91	
Seniors' Care -- Enhancements	88	
Hospital Working Capital Shortfall	47	
Social Assistance Savings	(49)	
Public Service/OPSEU Pension Plan Expense	(253)	
Other changes (net)	(51)	
Total Program Expense Changes		**3,784**
Public Debt Interest -- In-year expense savings		**(462)**
Total In-Year Operating Expense Changes		**3,322**

- The $610 million provision for Restructuring and Other Charges included in the 1997 Budget was increased in-year by $2,601 million to $3,211 million to support necessary investments. Restructuring charges in 1997-98 include $880 million for health care, $1,239 million for education, $1,117 million for municipalities, and a net reduction of $25 million in OPS employee severance expense.

- As part of Local Services Realignment, responsibility for a number of programs was transferred to municipalities on January 1, 1998. As a transition measure, the Province will continue to deliver some of these programs on behalf of municipalities pending program transfer. Local Services Realignment transition measures increased operating expense by $498 million. The Province will be reimbursed by municipalities for delivering these programs on their behalf.

- Teachers' pension expense increased $226 million in-year. This increase reflects a $499 million reduction in regular pension expense, mainly due to good investment performance which has put the Plan in a surplus position on an accounting basis, and a $725 million provision for benefit enhancements recently agreed to by the Ontario Teachers' Federation and the Province. The $725 million provision represents the Province's share of the costs of an enhanced early retirement incentive and increased pension benefits for active and retired teachers, and is in addition to the $250 million provision the Government set up in 1996-97 for a teachers' early retirement incentive.

- An overall in-year increase in expense of $200 million for OHIP and drug programs in the Ministry of Health was mainly due to increased utilization of doctors' services and drug programs.

- The Ministry of Health made a special provision totalling $144 million in-year. Ontario's participation in the federal, provincial and territorial agreement to provide financial assistance to persons who contracted Hepatitis C or were infected with HIV through secondary contact via the blood system, accounted for $113 million, and a one-time payment to Quebec associated with resolution of a billing issue, accounted for $31 million.

- A provision for one-time retroactive pay equity costs for agencies using proxy comparisons increased 1997-98 operating expense by $140 million.

- Consistent with the December, 1997 and March, 1998 schools funding announcements, school grants were increased by $102 million in-year for the former Metropolitan Toronto School Board and the Ottawa Board of Education.

- The Government is providing almost $300 million in operating and capital relief to people, small business, and farmers affected by the ice storms in Eastern Ontario. Of this total, $91 million was included in operating expense in 1997-98. The federal government's share of overall relief is more than $220 million, which is reflected in Provincial revenues.
- An $88 million in-year increase in funding for seniors' care was primarily related to an increase in the per diems in facilities to recognize more complex care requirements for residents, as well as enhancements in home-based services.
- An additional $47 million was provided in-year to assist hospitals with working capital shortfalls resulting from restructuring activities.
- Year-end savings of $49 million were achieved in social assistance.
- Public Service and OPSEU Pension Plan expense decreased by $253 million in-year, mainly as a result of good investment performance which has put both Plans in a surplus position on an accounting basis.
- Public Debt Interest (PDI) was $462 million lower than projected largely due to interest rates lower than the prudent Budget assumptions, lower borrowing requirements and higher-than-expected investment income.

1997-98 In-Year Capital Expense Changes

Capital expense was $2,411 million, $339 million below the Budget Plan projection of $2,750 million. Most of the reduction is due to slower-than-expected completion of construction projects for Canada-Ontario Infrastructure Works II, water and sewage facilities, municipal transit, health care institutions, and elementary and secondary schools.

Summary of In-Year Capital Expense Changes ($ Millions)

	Interim 1997-98
Purchase of Five Water Bombers	125
Local Services Realignment – capital transition measures	32
Construction Delays	
Canada-Ontario Infrastructure Works II	(151)
Water and Sewage Facilities	(91)
Municipal Transit	(68)
Health Care Institutions	(55)
Elementary and Secondary Schools	(30)
Other changes (net)	(101)
Total In-Year Capital Expense Changes	**(339)**

- Purchase of five forest firefighting water bombers in 1997-98 increased capital expense by $125 million.

- Provincial capital expense increased $32 million as a result of Local Services Realignment transition measures. The Province will be reimbursed by municipalities for delivering these programs on their behalf.

- Construction delays reduced capital expense in 1997-98 by $151 million for Canada-Ontario Infrastructure Works II, $91 million for water and sewage facilities, $68 million for municipal transit projects, $55 million for health care institutions, and $30 million for elementary and secondary schools.

1998-99 Fiscal Plan

1998-99 Deficit Target Cut by $600 Million

The 1998-99 Balanced Budget Plan deficit target of $4.8 billion is revised down by $0.6 billion and is forecast at $4.2 billion. This represents a decline of 63 per cent or $7.1 billion from the $11.3 billion deficit outlook facing the Government upon assuming office in June of 1995.

1998-99 Fiscal Plan
($ Millions)

	Interim	Plan	Change	
	1997-98	1998-99	$ Millions	Per cent
Revenue:				
Taxation Revenue	40,838	40,446	(392)	(1.0)
Federal Transfers	4,936	4,928	(8)	(0.2)
Income from Government Enterprises	2,256	2,438	182	8.1
Other Revenue	4,080	5,578	1,498	36.7
Total Revenue	52,110	53,390	1,280	2.5
Expense:				
Programs	42,963	45,219	2,256	5.3
Restructuring and Other Charges	3,211	194	(3,017)	(94.0)
Total Program Expense	46,174	45,413	(761)	(1.6)
Capital	2,411	2,337	(74)	(3.1)
Public Debt Interest	8,728	9,214	486	5.6
Total Expense	57,313	56,964	(349)	(0.6)
Reserve		650	650	
Deficit	5,203	4,224	(979)	(18.8)

- Revenue in 1998-99 is projected at $53,390 million, 2.5 per cent above the 1997-98 level of $52,110 million.

- Expense in 1998-99 is projected at $56,964 million, $349 million lower than the 1997-98 level of $57,313 million.

- In keeping with prudent budgeting, a $650 million Reserve has been included in the 1998-99 fiscal plan. The Reserve is designed to protect the fiscal plan against unforeseen risks such as unexpected and adverse changes in the economic outlook and their impact on revenues and public debt interest. If the reserve is not needed, it will be applied to deficit reduction.

1998-99 Revenue Outlook

Revenue in 1998-99 is projected to be $53,390 million, $1,280 million, or 2.5 per cent, above the 1997-98 level. Tax revenue is below the 1997-98 level due to the inclusion in 1997-98 Personal Income Tax (PIT) revenue of $990 million for higher estimated 1996-97 PIT than was included in the 1996-97 Public Accounts. Excluding this, standardized tax revenue grows by $598 million or 1.5 per cent in 1998-99.

Standardized Taxation Revenue*
($ Millions)

	1996-97	1997-98	1998-99
Standardized Taxation Revenue	38,511	39,848	40,446

* Taxation revenue adjusted to report PIT in the year earned.

1998-99 Revenues
($ Millions)

	Actual 1996-97	Interim 1997-98	Plan 1998-99
Taxation	38,466	40,838	40,446
Federal Payments	5,778	4,936	4,928
Income from Government Enterprises	1,959	2,256	2,438
Other Revenue	3,247	4,080	5,578
Total Revenue	**49,450**	**52,110**	**53,390**

- Personal Income Tax revenue is projected at $14,635 million. This includes the impact of the accelerated tax rate cut, the Fair Share Health Care Levy and the measures announced in the Budget.

- Retail Sales Tax revenue is forecast to increase to $11,435 million due to rising consumer and business spending and includes revenue measures announced in the Budget.

- Corporations Tax revenue is estimated to climb to $7,600 million as corporate profits are expected to continue to grow. This includes the measures announced in the Budget.

- Employer Health Tax revenue is projected to increase to $2,780 million. This includes the impact of the accelerated final phase-in of the EHT exemption.

- Transfers from the Government of Canada are forecast to decline to $4,928 million in 1998-99. 1998-99 Canada Health and Social Transfer payments are forecast to increase by $13 million over 1997-98 levels, to $3,950 million. The small increase is due to technical changes in the CHST allocation formula. Increased CHST entitlements due to the cash-floor are offset by lower cash entitlements resulting from the increased value of tax points. Revenues related to the February 1998 ice storm for 1998-99 are forecast at $135 million.

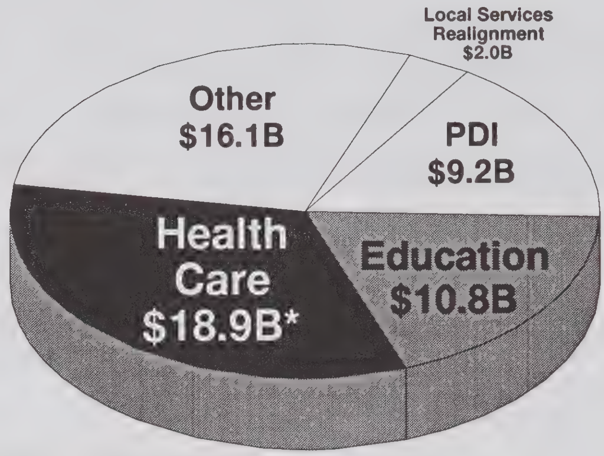
- Income from Government Enterprises is projected to increase to $2,438 million. This includes $90 million from the initial phase-in of charity casinos and slot machines at race tracks.

- Other Revenue is expected to increase to $5,578 million primarily due to the full-year reimbursement from municipalities for services provided under Local Services Realignment as a transition measure. Other Revenue also includes Vehicle and Driver Registration Fees, Other Fees and Licences, Royalties, Fines and Penalties, and Sales and Rentals.

1998-99 Expense Outlook

While continuing to control costs, the Government is focusing resources on the priority areas of health care and education. In 1998-99, almost $30 billion will be made available to support these priorities.

Support for Priority Programs, 1998-99
Total Expense: $57 Billion



* Includes $18,476 million in operating expense, net of Local Services Realignment transition expense, and $471 million in Health Capital

- Despite cuts in federal transfers for health care, the Government has increased its funding for health care to the highest level in the history of the province. Total health care funding in 1998-99 will be $18.9 billion, excluding Local Services Realignment transition expense. Planned reductions in hospital operating funding of $507 million initially scheduled for 1998-99 will not occur. Excluding LSR transition expense and restructuring, program spending will increase to $18.5 billion in 1998-99 from $18.3 billion in 1997-98. The capital budget for the Ministry of Health will be $471 million this year, significantly higher than last year's $113 million.

- As part of the Government's commitment to stable spending for school boards over the next three years, the Government will provide $6.7 billion in school board operating grants in 1998-99. Funding for post-secondary education, including grants to colleges and universities as well as Provincial support for student assistance will be $2.9 billion in 1998-99. More than $370 million will be invested by the Ministry of Education and Training for capital projects.

Supporting Ontario's Charities, Communities and the Health Care Sector

The Government is taking significant measures to support Ontario's charities, communities and the health care sector. All provincial revenue generated from charity gaming in Ontario will be dedicated through proposed legislation to fund new priority health care services and to provide assistance to charitable groups and communities across the province. These funds will be generated from gaming at charity casinos and from slot machines at race tracks throughout Ontario.

Supporting Ontario's Charities, Communities and the Health Care Sector
($ Millions)

	1998-99	Potential Full-Year
Charities	50[1]	40[3]
Trillium Foundation	8	80
Health	72[2]	480
Total	**130**	**600**

[1] Includes $40 million advance of funds to charities participating at charity casinos
[2] Includes funding for seniors' care ($69 million) and problem gambling ($3 million)
[3] Excludes $80 million flowing directly from Ontario Lottery Corporation to charities

- All provincial proceeds from slot machines and half of the net proceeds from table games will be dedicated to support provincial priority areas including health care, funding to charities and not-for-profit organizations, communities and the Trillium Foundation.
  - The remaining half of the net proceeds from table games will flow directly from the Ontario Lottery Corporation to the participating charities at each charity casino.
- Amendments will be proposed to the *Ontario Lottery Corporation Act* to implement these initiatives and provide taxpayers with full disclosure of expenditures related to charity gaming. The Minister responsible for gaming will table a report in the Legislature annually, prepared by the Ontario Lottery Corporation, on the uses of revenues, including all payments under agreements relating to charity gaming and slot machines.
- To ensure that the public has full access to information on the use of revenues from charity gaming, the Province will report annually on these activities in the Ontario Budget and the Public Accounts.

Preserving Ontario's Health Care System

The Government is significantly increasing its financial support to health care this year. Excluding Local Services Realignment transition expense and restructuring charges, the Ministry of Health operating envelope will increase to $18.5 billion in 1998-99, a $300 million increase from the envelope announced in December 1997 and a 1.0 per cent increase from last year's level.

Ministry of Health Operating Envelope
($ Millions)

	Interim 1997-98	Plan 1998-99	Change $Millions
Operating Envelope	18,288	18,476	188
Local Services Realignment*	52	206	154
Total	18,340	18,682	342
Health Care Restructuring	880		

* Public health and land ambulance services

- Additional funding will be provided to expand the number of beds for seniors and persons with disabilities and to provide a substantial increase in community-based services. These initiatives will ensure that health care services are modern, available, timely and close at hand.

- The restructuring in the health care sector, which is underway, will give Ontario a health care system that is up-to-date, better coordinated and more integrated.

Increasing Efficiency in Government and Improving Pension Legislation

The Government is introducing several initiatives to further improve efficiency and effectiveness within the public sector.

Ontario Realty Corporation

The Ontario Realty Corporation (ORC) will be converted into a publicly owned, administratively independent agency of the Government. A key goal of the proposed new structure is to ensure the capacity of the ORC to effectively and competitively manage the Government's real estate portfolio. This includes ensuring that an adequate revenue stream is available to cover the costs of the real estate management responsibilities of the Government.

Year 2000 Project Office

To ensure that computer systems within the Ontario Public Service (OPS) continue to operate correctly after December 31, 1999, a Year 2000 Project Office has been established. Working with Government ministries, the Office has identified 63 projects that are vital to the smooth functioning of the Provincial Government.

Over $200 million has been set aside to make the necessary modifications within the OPS so that Ontarians can continue to receive essential government services in the year 2000 and beyond.

Organizations in the Broader Public Sector should include in their annual reports, a statement of management responsibility for internal controls and protection of their assets. The Government looks to the Broader Public Sector to formally report on its readiness for the year 2000 in its public documents.

Maintaining the Integrity of the Tax System

Some people try to avoid paying their fair share of taxes by participating in the underground economy. The Government will continue to hire more audit and collections staff and will propose legislative amendments to maintain the integrity of the Province's tax system and to make sure that taxes are paid if they are owed. Other amendments will be proposed to improve fairness and continue the modernization of Ontario's tax statutes.

Improving Pension Legislation

The Government will be consulting on and responding with specific legislative options to provide Ontarians with appropriate and efficient access to locked-in retirement accounts when they are faced with hardship.

In last year's Budget, the Government noted that the Province's pension legislation is complex, inefficient and costly. Through consultations, over 50 suggestions were made for amendments to the *Pension Benefits Act* and Regulations that could reduce red tape and increase harmonization of Ontario's pension rules with other Canadian jurisdictions. The Government will consult on these proposals and bring forward for the consideration of the Legislature the necessary changes to ensure that they will meet the needs of both employers and employees.

In light of the agreement with the Ontario Teachers' Federation, the Government will also be introducing legislation to amend the *Teachers' Pension Act*.

Charting a Course for Competitive Electricity and Jobs in Ontario

A competitive electricity system will deliver benefits to all power consumers in the province - from homeowners to large institutions, commercial businesses and major industries - as well as to Ontario taxpayers. In particular, the Government believes that the move to a competitive electricity market is key to creating new jobs and a robust economy that is competitive and attractive to investors, and to providing the lowest possible costs while maintaining a reliable, safe, environmentally sound electricity supply.

As outlined in "Direction for Change: Charting a Course for Competitive Electricity and Jobs in Ontario," the proposals for the new competitive structure involve a major restructuring of Ontario Hydro into new companies with clear business mandates on a sound financial footing.

The Province will invest in the equity of the new successor companies which will be expected to earn commercial rates of return. Return on this investment will be reflected in the Province's financial position.

Specifics of the equity investments will be determined once the Legislature has approved the necessary legislative changes, and the successor companies have been established.

Medium Term Fiscal Outlook

Over the medium term, Ontario's deficit will continue on its downward track toward a balanced budget. In 1999-00, the deficit outlook will be reduced by a further $1.6 billion from $4.2 billion in 1998-99 to $2.6 billion.

Medium Term Fiscal Outlook
($ Billions)

	Interim 1997-98	Plan 1998-99	Outlook 1999-00
Revenue	52.1	53.4	54.0
Expense			
Programs	43.0	45.2	44.3
Restructuring and Other Charges	3.2	0.2	0.0
Total Programs	46.2	45.4	44.3
Capital	2.4	2.3	2.0
Public Debt Interest	8.7	9.2	9.6
Total Expense	57.3	57.0	55.9
Reserve		0.7	0.7
Deficit	**5.2**	**4.2**	**2.6**

Note: Numbers may not add due to rounding.

- The 1999-00 deficit target is $2.6 billion. This is $8.7 billion or more than 75 per cent lower than the $11.3 billion potential deficit outlook the Government faced upon assuming office in June of 1995.

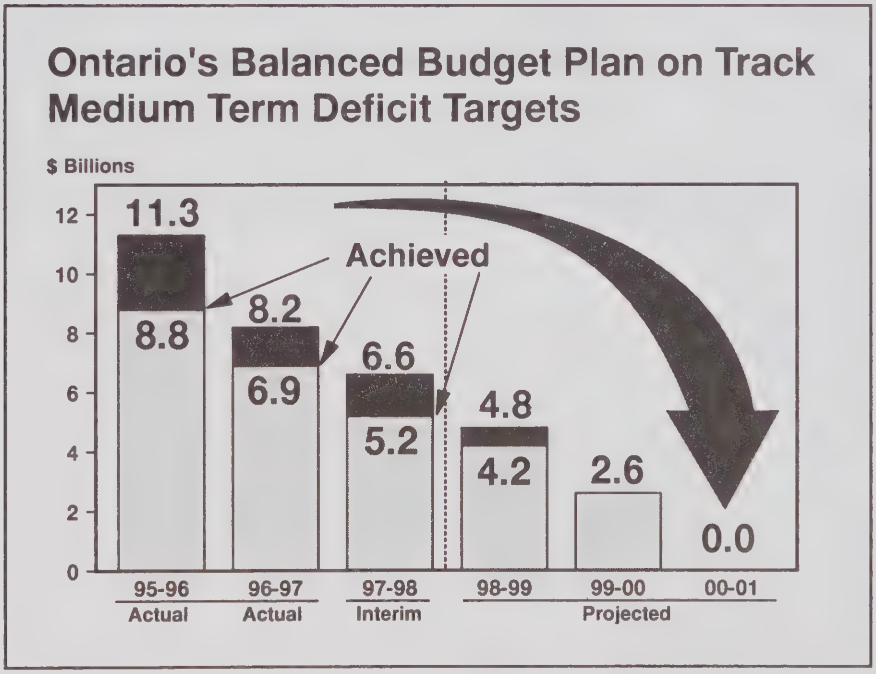
- The 1999-00 outlook includes a Reserve designed to protect the fiscal plan against unforeseen risks such as unexpected and adverse changes in the economic outlook and their impact on revenues and public debt interest. If the reserve is not needed, it will be applied to deficit reduction.

Conclusion

In its third Budget, the Government has reduced Ontario's deficit by 63 per cent to $4.2 billion from the potential $11.3 billion deficit facing the Government when it assumed office in June 1995. By next year, Ontario will be three-quarters of the way to achieving a balanced budget.

Through prudent and cautious fiscal planning, the Government has consistently overachieved the deficit targets set out in the Balanced Budget Plan. Interim results indicate the 1997-98 deficit target of $6.6 billion will be overachieved by almost $1.4 billion to $5.2 billion. At $4.2 billion, the deficit outlook for 1998-99 is $0.6 billion below the Balanced Budget Plan target of $4.8 billion.

Ontario is beginning to see the benefits of lower taxes and an improved fiscal environment through a vibrant economy and rising employment.



PAPER B

Appendices

Financial Tables and Graphs

Statement of Financial Transactions **Table B1**
($ Millions)

	Actual 1994-95	Actual 1995-96	Actual 1996-97	Interim 1997-98	Plan 1998-99
Revenue	46,039	49,473	49,450	52,110	53,390
Expense					
Programs	44,505	45,309	42,831	42,963	45,219
Restructuring and Other Charges		854	2,180	3,211	194
Total Program Expense	44,505	46,163	45,011	46,174	45,413
Capital	3,831	3,635	2,737	2,411	2,337
Public Debt Interest	7,832	8,475	8,607	8,728	9,214
Total Expense	56,168	58,273	56,355	57,313	56,964
Reserve	-	-	-	-	650
Deficit	**10,129**	**8,800**	**6,905**	**5,203**	**4,224**

Ontario Opportunities Fund **Table B2**
($ Millions)

		1997-98
Provincial Purposes Debt at April 1, 1997		101,511
Add: Borrowing requirements to finance projected deficit of $6,580 million and loans and investments in agencies	5,466	
Decrease in liquid reserves	(552)	
Increase in debt:		4,914
Debt before Ontario Opportunities Fund		106,425
Less:		
Ontario Opportunities Fund		
Overachievement in 1997-98 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	1,377	
Fund Balance Applied to Debt Reduction		(1,377)
Provincial Purpose Debt at March 31, 1998		105,048

* There were no major asset sales in 1997-98. Contributions from Ontarians amounted to $14,825 in 1997-98

Revenue **Table B3**
($ Millions)

	Actual 1994-95	Actual 1995-96	Actual 1996-97	Interim 1997-98	Plan 1998-99
Taxation Revenue					
Personal Income Tax	14,758	15,633	16,357	16,192	14,635
Retail Sales Tax	9,090	9,424	9,964	10,785	11,435
Corporations Tax	4,557	5,174	5,852	7,375	7,600
Employer Health Tax	2,640	2,695	2,772	2,743	2,780
Gasoline Tax	1,939	1,944	1,951	2,010	2,045
Fuel Tax	495	500	540	568	600
Tobacco Tax	322	337	356	440	470
Land Transfer Tax	372	342	452	555	580
Mining Profits Tax	86	71	54	42	50
Race Tracks Tax	84	92	46	5	6
Preferred Share Dividends Tax	56	65	73	50	55
Other Taxation	60	39	49	73	190
	34,459	**36,316**	**38,466**	**40,838**	**40,446**
Government of Canada					
Canada Health and Social Transfer	-	-	4,814	3,937	3,950
Established Programs Financing	4,059	3,820	-	-	-
Canada Assistance Plan	2,577	2,508	-	-	-
Fiscal Stabilization	184	367	-	-	-
National Training Act	75	55	37	-	-
Bilingualism Development	65	62	44	48	40
Young Offenders	82	61	59	59	59
Vocational Rehabilitation	61	63	65	45	46
Canada-Ontario Infrastructure Works	159	350	142	120	92
Social Housing	-	384	341	389	353
Other	345	210	276	338	388
	7,607	**7,880**	**5,778**	**4,936**	**4,928**
Income from Government Enterprises					
Ontario Lottery Corporation	631	651	654	714	840
Liquor Control Board of Ontario	637	667	701	750	760
Ontario Casino Corporation	316	422	594	760	915
Ontario Housing Corporation	(273)	-	-	-	-
GO Transit	(166)	-	-	-	-
Other	(77)	(10)	10	32	(77)
	1,068	**1,730**	**1,959**	**2,256**	**2,438**
Other Revenue					
Vehicle/Driver Registration Fees	751	736	816	862	915
Other Fees and Licences	686	631	624	632	570
Liquor Licence Board of Ontario Revenues	532	530	520	516	510
Royalties	223	263	264	324	265
Sales and Rentals	98	497	543	496	480
Fines and Penalties	163	143	157	140	40
Local Services Realignment-Reimbursement of Expenditure	-	-	-	540	2,261
Miscellaneous	452	747	323	570	537
	2,905	**3,547**	**3,247**	**4,080**	**5,578**
Total Revenue	**46,039**	**49,473**	**49,450**	**52,110**	**53,390**

Operating Expense **Table B4**
($ Millions)

Ministry	**Actual 1994-95**	**Actual 1995-96**	**Actual 1996-97**	**Interim 1997-98**	**Plan 1998-99**
Agriculture, Food and Rural Affairs	258	263	324	291	340
Farm Tax Rebate	151	157	150	158	-
Attorney General	830	1,085	638	624	733
Board of Internal Economy	135	206	124	115	121
Citizenship, Culture and Recreation	408	363	302	287	307
Community and Social Services	9,364	8,816	7,965	8,010	7,848
Consumer and Commercial Relations	150	140	123	100	133
Economic Development, Trade and Tourism	463	385	245	237	170
Education and Training	8,357	8,390	7,825	7,832	10,204
Teachers' Pension Plan (TPP)*	643	812	933	971	61
School Board Transition	-	-	-	268	117
School Board Capital Debentures	-	-	-	971	-
Energy, Science and Technology	14	13	11	3	161
Environment	258	226	146	158	143
Executive Offices	10	13	13	14	19
Finance - Own Account	425	701	435	567	691
Public Debt Interest	7,832	8,475	8,607	8,728	9,214
Community Reinvestment Fund	-	-	-	169	677
Health	17,599	17,607	17,760	18,340	18,682
Health Care Restructuring	-	-	970	880	-
Intergovernmental Affairs	6	5	4	5	4
Labour	135	135	103	114	111
Management Board Secretariat	823	554	712	323	348
Public Service/OPSEU Pension Plan	682	685	94	(108)	(100)
Contingency Fund	-	-	-	-	830
OPS Employee Severance (Net)	-	400	438	(25)	-
Retroactive Pay Equity Payments	-	-	-	140	-
Special Circumstances Fund	-	-	-	-	77
Municipal Affairs and Housing	1,487	2,421	2,456	2,378	1,728
Municipal Capital and Operating Restructuring Fund	-	-	150	-	-
Municipal Restructuring Fund	-	-	-	75	-
Native Affairs Secretariat	16	16	17	10	9
Natural Resources	478	519	417	429	388
Northern Development and Mines	54	66	52	55	100
Office of Francophone Affairs	3	2	2	2	3
Office Responsible for Women's Issues	22	18	14	19	21
Solicitor General and Correctional Services	1,136	1,111	1,159	1,164	1,188
Transportation	598	1,054	879	720	499
Restructuring/ Municipal Capital and Operating Restructuring Fund	-	-	550	50	-
TTC Five Year Capital Transfer	-	-	-	828	-
Year-End Savings	-	-	-	-	(200)
Total Operating Expense	**52,337**	**54,638**	**53,618**	**54,902**	**54,627**

* The comparative figures for the Teachers' Pension Plan have been reclassified as necessary to conform to the 1997-98 presentation

Capital Expense **Table B5**
($ Millions)

Ministry	Actual 1994-95	Actual 1995-96	Actual 1996-97	Interim 1997-98	Plan 1998-99
Agriculture, Food and Rural Affairs	12	5	-	1	3
Attorney General	4	-	20	47	91
Citizenship, Culture and Recreation	42	29	9	3	5
Community and Social Services	72	14	116	31	20
Economic Development, Trade and Tourism	117	113	11	3	-
Education and Training	421	559	199	393	379
Energy, Science and Technology	-	-	-	-	45
Environment	271	238	225	100	51
Municipal Capital and Operating Restructuring Fund	-	-	-	-	29
Finance	3	1	18	5	1
Health	249	168	175	113	471
Management Board Secretariat	260	272	152	58	10
Municipal Affairs and Housing	310	628	313	159	91
Native Affairs Secretariat	17	9	13	11	12
Natural Resources	54	47	33	151	29
Northern Development and Mines	240	163	168	175	179
Solicitor General and Correctional Services	2	2	6	11	72
Transportation	1,757	1,387	1,279	1,150	849
Total Capital Expense	**3,831**	**3,635**	**2,737**	**2,411**	**2,337**

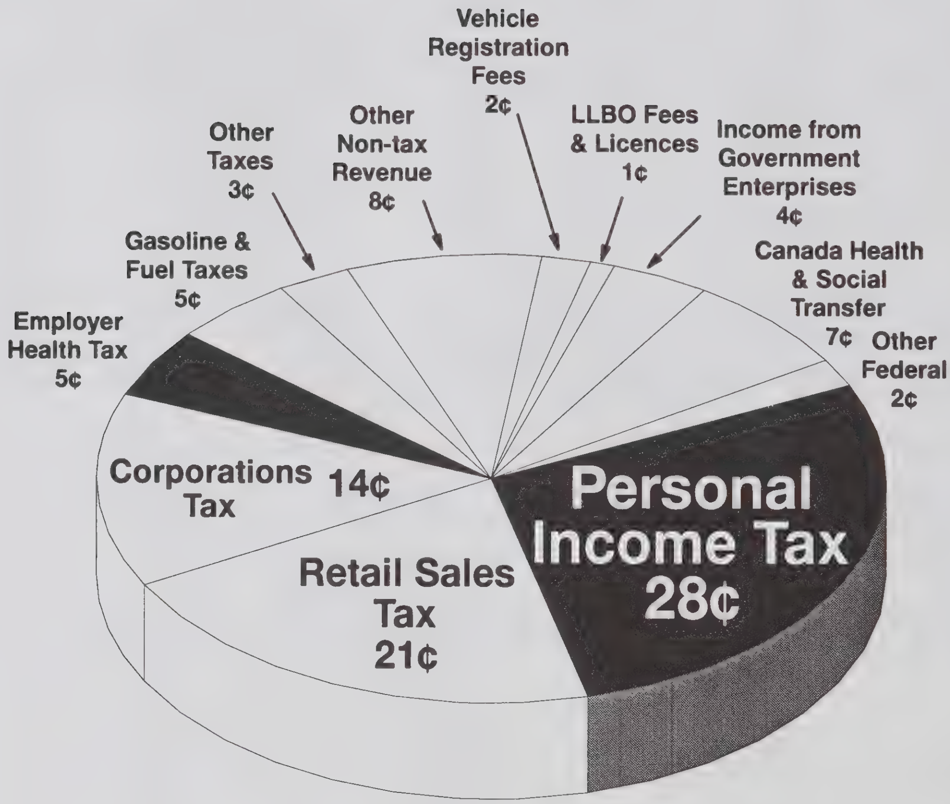
Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	Modified Cash Basis		
	1989-90	**1990-91**	**1991-92**
Financial Transactions			
Revenue	41,225	42,892	40,753
Expense			
Programs	33,926	38,924	43,613
Restructuring and Other Charges	-	-	-
Total Program Expense	33,926	38,924	43,613
Capital	3,392	3,221	3,874
Public Debt Interest	3,817	3,776	4,196
Total Expense	41,135	45,921	51,683
Reserve	-	-	-
Deficit/(Surplus)	**(90)**	**3,029**	**10,930**
Provincial Purpose Debt	**39,256**	**42,257**	**53,083**
Gross Domestic Product (GDP) at Market Prices	278,724	280,172	281,136
Personal Income	225,521	236,865	243,484
Population - July (000s)	10,151	10,341	10,464
Total Debt per Capita (dollars)	3,867	4,086	5,073
Personal Income per Capita (dollars)	22,217	22,905	23,269
Total Expense as a per cent of GDP	14.8	16.4	18.4
Public Debt Interest as a per cent of Revenue	9.3	8.8	10.3
Total Debt as a per cent of GDP	14.1	15.1	18.9
Cumulative Net Borrowing for Ontario Hydro			
U.S.	5,150	5,049	4,185
C.P.P.	2,748	2,748	2,748
Contingent Liability (mainly Ontario Hydro)	21,490	26,009	30,369

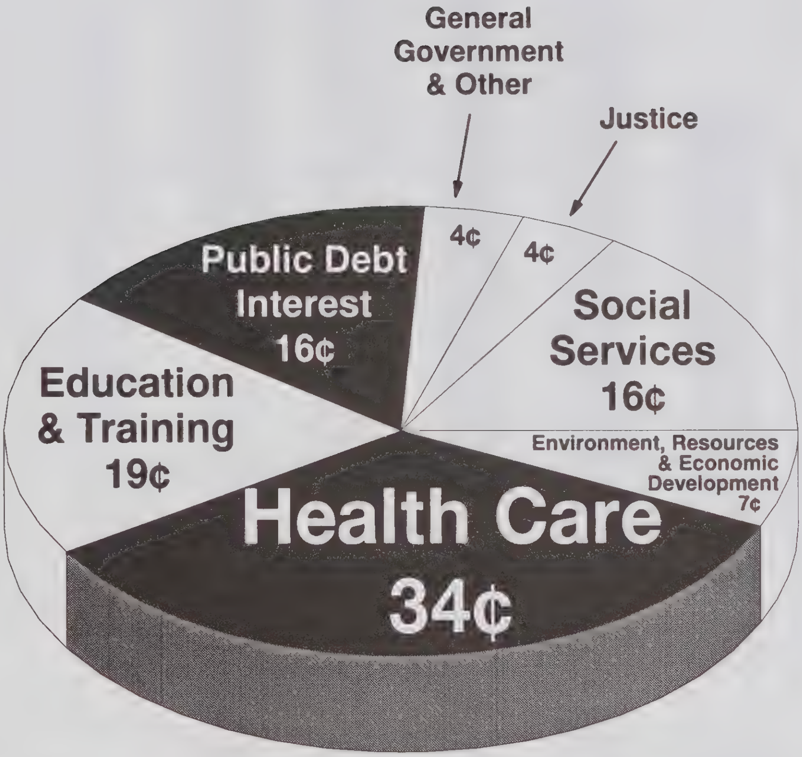
Table B6

	PSAAB Basis					
					Interim	Plan
1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
41,807	43,674	46,039	49,473	49,450	52,110	53,390
45,350	44,195	44,505	45,309	42,831	42,963	45,219
-	-	-	854	2,180	3,211	194
45,350	44,195	44,505	46,163	45,011	46,174	45,413
3,592	3,552	3,831	3,635	2,737	2,411	2,337
5,293	7,129	7,832	8,475	8,607	8,728	9,214
54,235	54,876	56,168	58,273	56,355	57,313	56,964
-	-	-	-	-	-	650
12,428	**11,202**	**10,129**	**8,800**	**6,905**	**5,203**	**4,224**
68,607	**79,439**	**88,580**	**101,396**	**101,511**	**105,048**	**110,256**
286,389	293,148	307,379	324,846	333,068	350,400	366,368
244,353	246,751	251,273	261,194	263,765	271,284	284,688
10,663	10,805	10,963	11,121	11,272	11,422	11,561
6,434	7,352	8,080	9,118	9,006	9,197	9,537
22,916	22,837	22,920	23,487	23,400	23,751	24,625
18.9	18.7	18.3	17.9	16.9	16.4	15.5
12.7	16.3	17.0	17.1	17.4	16.7	17.3
24.0	27.1	28.8	31.2	30.5	30.0	30.1
3,969	1,789	1,087	1,060	392	138	N/A
2,748	2,748	2,748	2,748	2,748	2,748	N/A
34,657	34,008	33,782	31,590	31,786	30,796	N/A

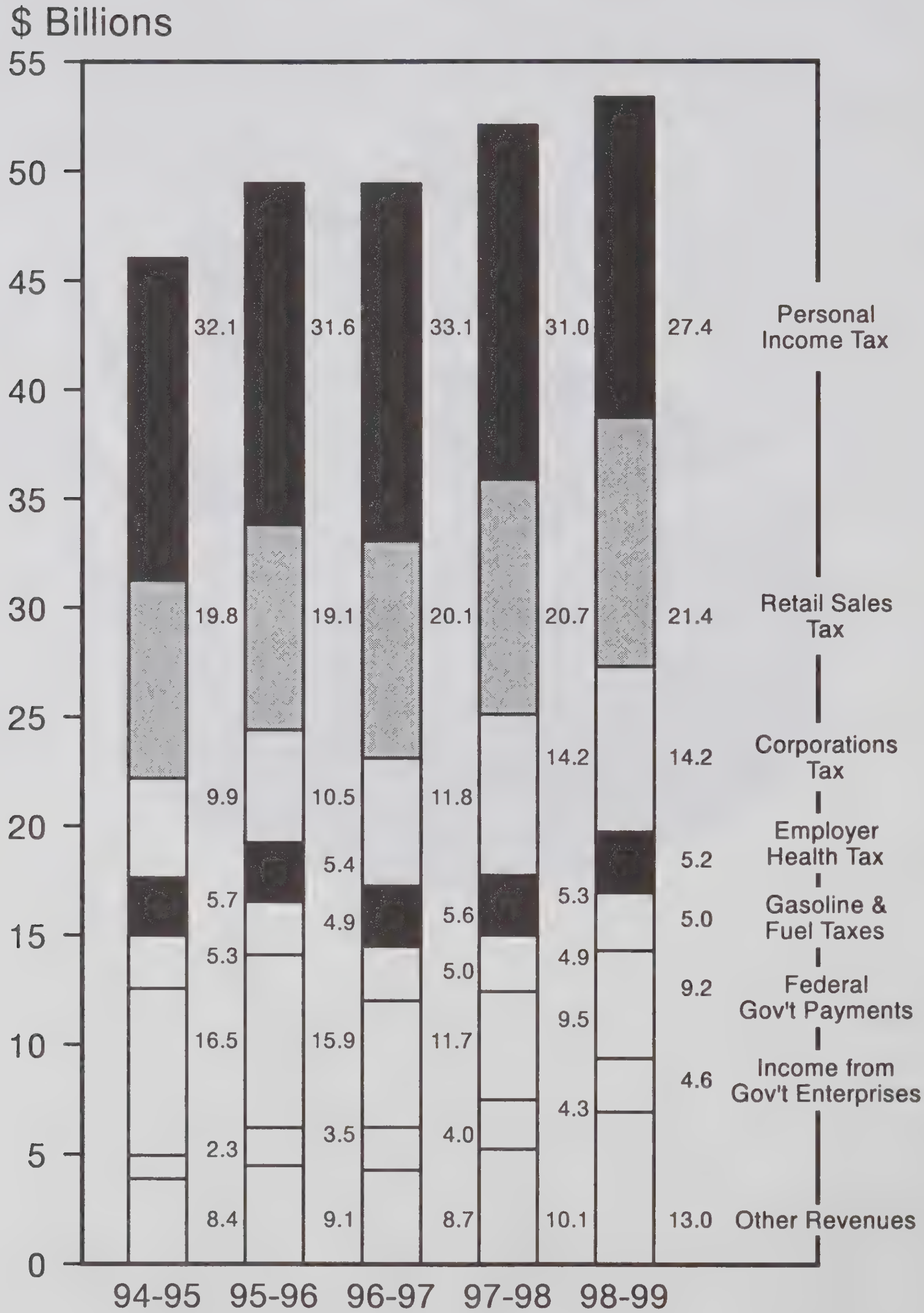
The Budget Dollar: Revenue 1998-1999



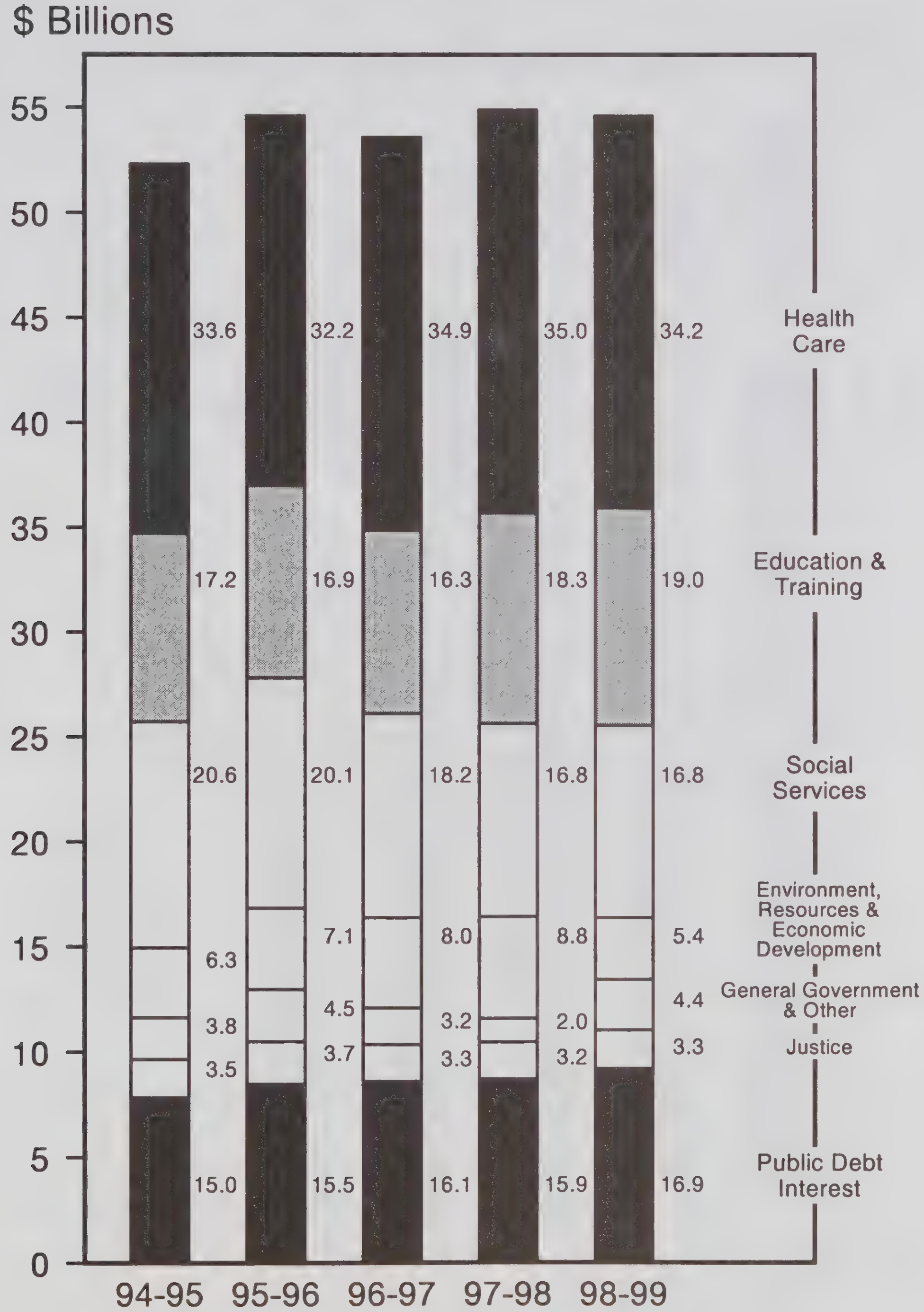
The Budget Dollar: Total Expense 1998-1999



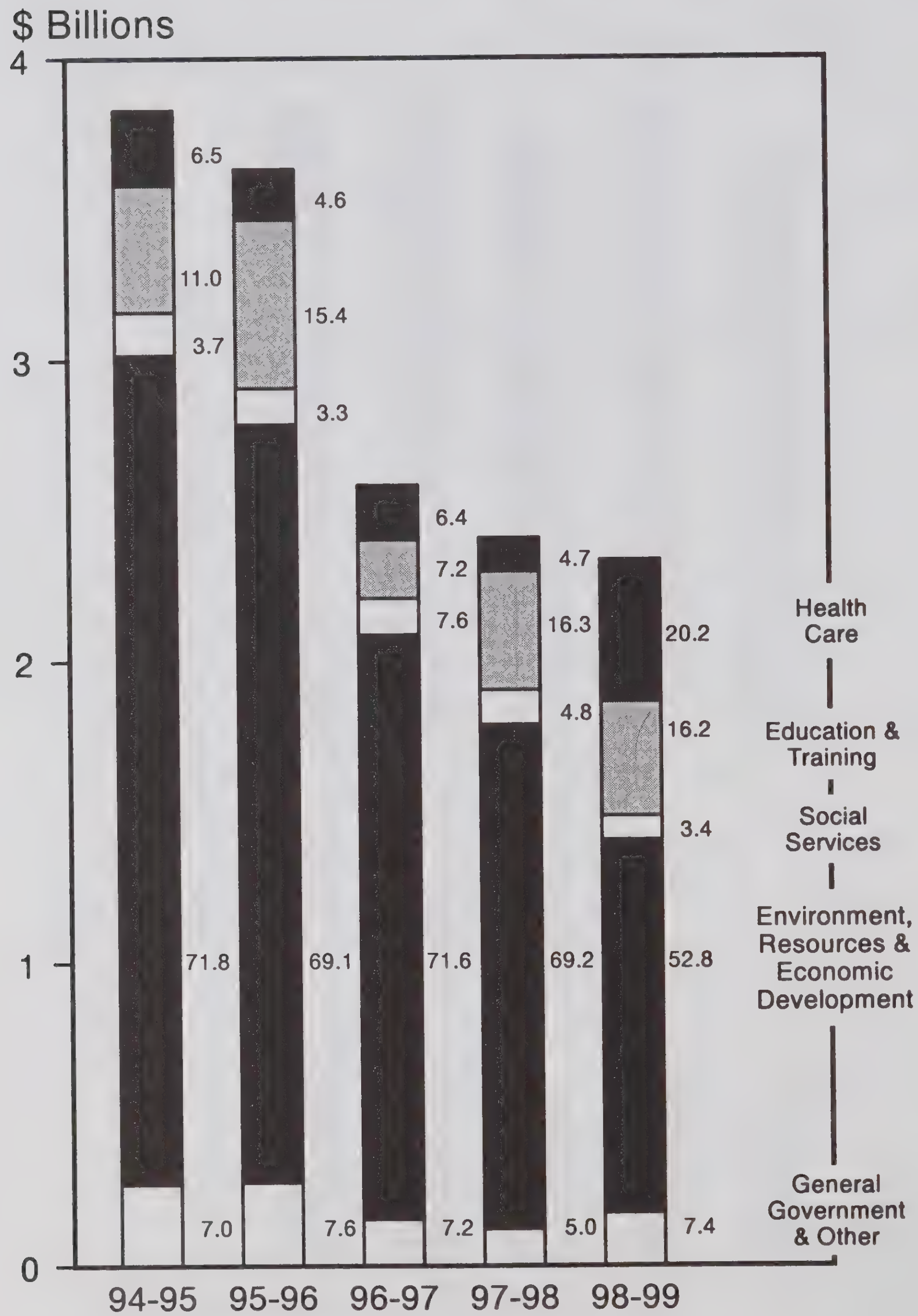
Revenue Sources by Category: Per Cent of Total 1994-95 to 1998-99



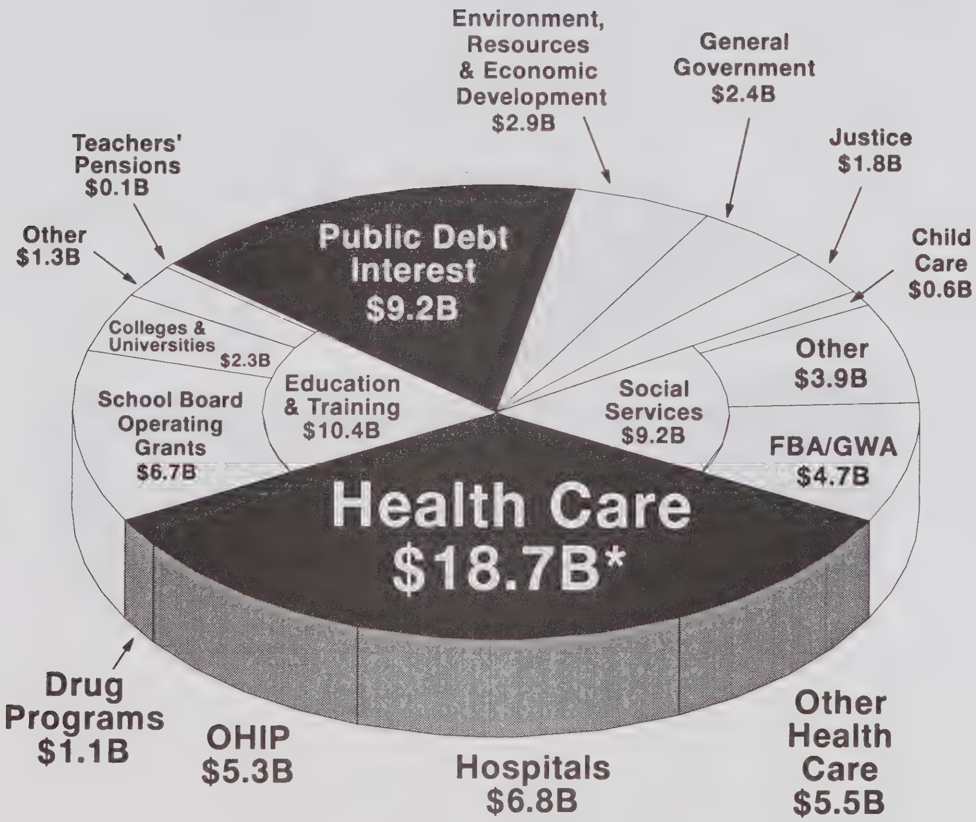
Operating Expense by Category: Per Cent of Total 1994-95 to 1998-99



Capital Expense by Category: Per Cent of Total 1994-95 to 1998-99

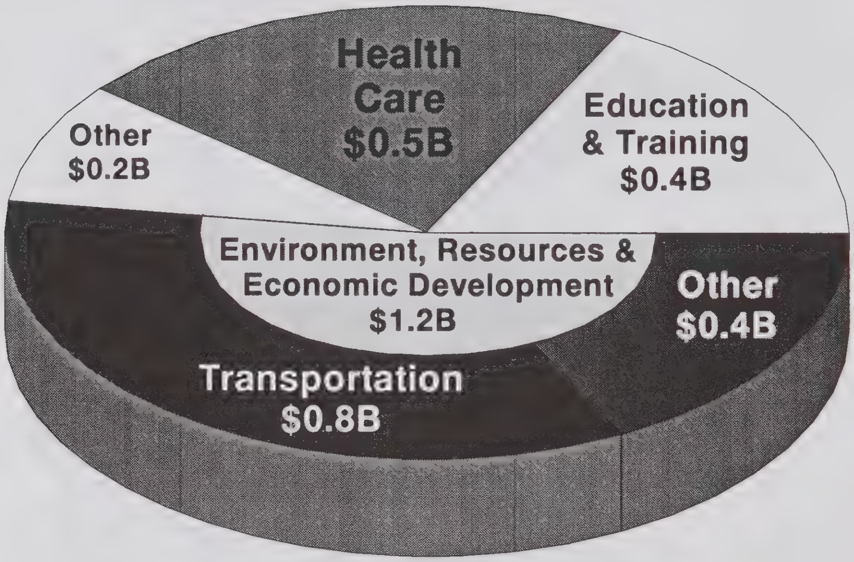


1998-99 Operating Expense by Sector ($ Billions)



* Includes $18.5 billion in operating expense, and $0.2 billion in Local Services Realignment transition expense

1998-99 Capital Expense by Sector ($ Billions)



PAPER C

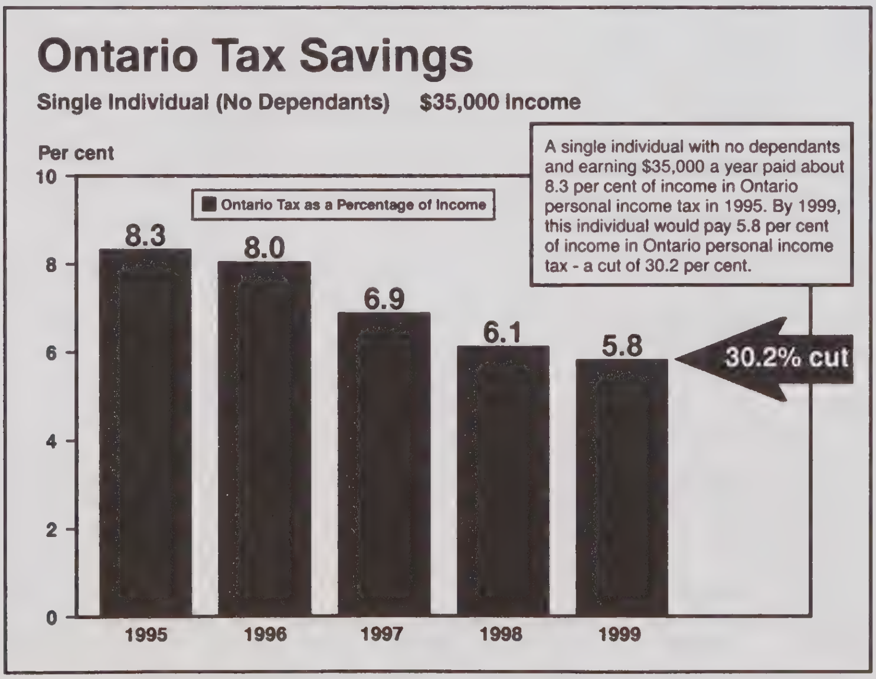
Details of Revenue Measures

The Ontario Income Tax Cut is Fully Implemented

> "We will cut your provincial income tax rate by 30% in three years. Half of these cuts will come up-front — in year one."
>
> *Common Sense Revolution*

This Government promised the people of Ontario a 30 per cent cut during its first three years in office. The tax cut is proposed to be completed just two years after the first cut was made. On July 1, 1998, Ontario's income tax rate is proposed to be 40.5 per cent — 30.2 per cent lower than it was on June 30, 1996. This tax cut:

- reduces Ontario income tax for every Ontario income taxpayer
- delivers the greatest percentage reductions to Ontarians with lower incomes
- ensures that every taxpayer with $60,000 or less in income gets a 30 per cent tax cut or greater



A Fair Distribution of the Tax Cut

All Ontario taxpayers benefit from the tax cut. Enrichments to the Ontario Tax Reduction and the introduction of the Fair Share Health Care Levy ensure that the income tax cut is distributed fairly. Average reductions in Ontario tax would range from a low of 18.0 per cent for taxpayers reporting incomes in excess of $255,000 to 49.6 per cent for taxpayers reporting incomes of less than $15,150.

Ontario's Proposed Tax Cut by Income Group

Income Group ($)	Individual Tax Payers (%)	Average Tax Cut (%)
Less than 15,150	10.0	*49.6%*
15,150 - 19,675	10.0	*36.0%*
19,675 - 24,135	10.0	*34.6%*
24,135 - 28,610	10.0	*33.5%*
28,610 - 33,130	10.0	*32.7%*
33,130 - 38,245	10.0	*31.6%*
38,245 - 44,890	10.0	*30.9%*
44,890 - 54,040	10.0	*30.5%*
54,040 - 68,025	10.0	*30.3%*
68,025 - 70,300	1.0	*29.6%*
70,300 - 72,890	1.0	*28.9%*
72,890 - 76,040	1.0	*28.0%*
76,040 - 80,090	1.0	*27.3%*
80,090 - 85,120	1.0	*26.3%*
85,120 - 92,190	1.0	*25.6%*
92,190 - 103,575	1.0	*24.7%*
103,575 - 125,000	1.0	*23.7%*
125,000 - 177,000	1.0	*21.2%*
177,000 - 255,000	0.5	*19.7%*
255,000 +	0.5	*18.0%*
Total	**100.0**	***33.5%***

Proposed Provincial Personal Income Tax Cuts Support Community Economies Across Ontario	Full Implementation Tax Cut ($M)
Algoma District	40.0
Brant County	38.0
Bruce County	22.5
Cochrane District	33.0
Dufferin County	18.0
Durham Region	203.0
Elgin County	25.0
Essex County	155.0
Frontenac County	51.5
Grey County	23.0
Haldimand - Norfolk Region	33.0
Haliburton County	3.5
Halton Region	223.5
Hamilton - Wentworth Region	176.0
Hastings County	39.0
Huron County	16.0
Kenora District	19.0
Kent County	41.0
Lambton County	54.0
Lanark County	20.5
Leeds and Grenville County	34.0
Lennox and Addington County	11.0
Manitoulin District	2.5
Middlesex County	158.5
Muskoka District	14.5
Niagara Region	147.5
Nipissing District	26.0
Northumberland County	25.5
Ottawa - Carleton Region	371.0
Oxford County	35.5
Parry Sound District	10.0
Peel Region	369.5
Perth County	24.5

Proposed Provincial Personal Income Tax Cuts Support Community Economies Across Ontario

	Full Implementation Tax Cut ($M)
Peterborough County	40.0
Prescott - Russell County	23.5
Prince Edward County	7.0
Rainy River District	7.0
Renfrew County	30.0
Simcoe County	114.0
Stormont, Dundas and Glengarry County	34.0
Sudbury District	7.0
Sudbury Region	64.0
Thunder Bay District	65.0
Timiskaming District	11.0
Toronto	1,120.0
Victoria County	20.5
Waterloo Region	167.0
Wellington County	68.5
York Region	312.0
Total	**4,555.0**

Overview of the Tax Cut

1. The tax cut was introduced in the 1996 Ontario budget. At that time, Ontario's income tax rate was 58 per cent of Basic Federal Tax. The top marginal income tax rate was the second-highest in the country, and the highest for entrepreneurs because of the application of Employer Health Tax to self-employment income. Before this tax cut, four provinces had a lower statutory rate than Ontario; in 1999, these proposals will give Ontario the lowest statutory rate in Canada.

The first income tax rate cut took place in July 1996. By January 1997, Ontario's income tax rate was down to 49 per cent of Basic Federal Tax — 15.5 per cent of the 30 per cent rate cut was already in place. Last year, a further round of cuts was announced and, by January 1998, Ontario's income tax rate was down to 45 per cent of Basic Federal Tax — 22.4 per cent of the 30 per cent tax cut was then in place.

With the cuts proposed in this budget, the 30 per cent income tax cut would be completed two years after it began. On July 1, 1998, Ontario's income tax rate is proposed to be 40.5 per cent — 30.2 per cent lower than the 58 per cent rate this Government inherited.

More than a 30 Per Cent Tax Cut

Every year, substantial improvements have been made to the Ontario Tax Reduction program. The Ontario Tax Reduction program reduces or eliminates Ontario income tax for people with lower incomes. With each cut to the income tax rate, this program has been enriched. With the enrichments proposed in this budget, the Ontario Tax Reduction will have been enriched in three consecutive budgets.

The Ontario Tax Reduction increases the value of the tax cut to more than 30 per cent. In total, 630,000 people will have had their Ontario income tax reduced by more than 30 per cent. Of these taxpayers, 360,000 additional taxpayers benefit from this program as a result of this Government's initiatives.

The Fair Share Health Care Levy

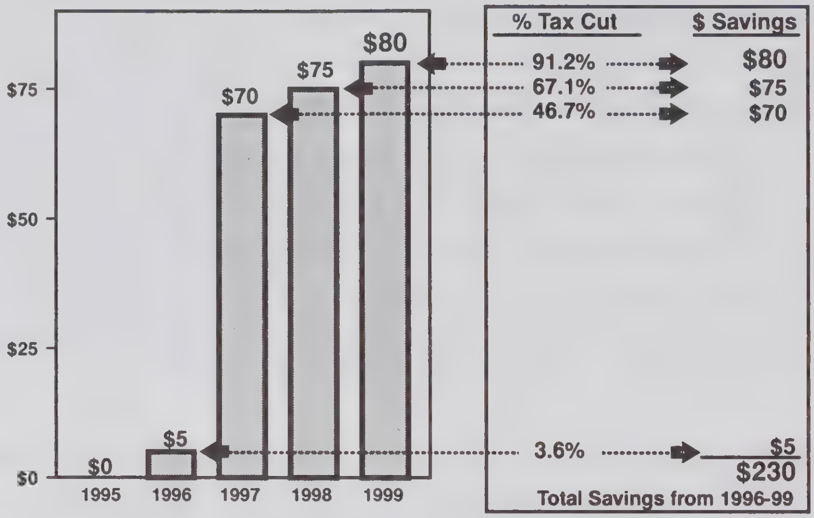
The Fair Share Health Care Levy was introduced in July 1996 and it has been adjusted with each new cut in the income tax rate. The Fair Share Health Care Levy has made it possible for the job-killing payroll tax on small business to be abolished without affecting health care funding. The federal government rejected the original design for the Fair Share Health Care Levy so the pre-existing surtax was amended and expanded. As promised, the Fair Share Health Care Levy reduces the value of the Ontario tax cut but this plan will ensure that no taxpayer gets less than a 16.2 per cent cut.

Illustrative Examples

The measures proposed in this budget will, if approved by the Legislature, complete the 30 per cent Ontario personal income tax cut, accelerate the implementation of the Employer Health Tax exemption for self-employed individuals and introduce the Ontario Child Care Supplement for Working Families. The following examples illustrate the impact of these proposed tax cuts on individuals and families in a variety of circumstances.

$230 Total Ontario Tax Savings

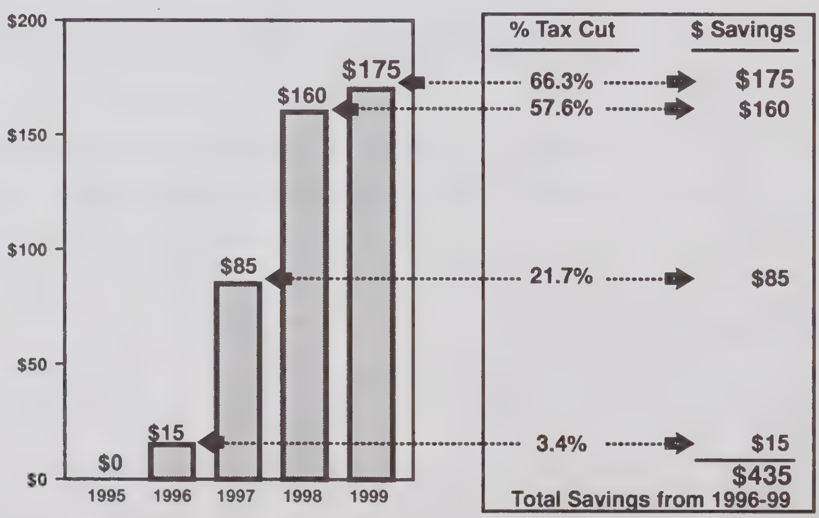
Single Senior   Net Income $14,940



- A single senior receives Old Age Security of $4,850, Guaranteed Income Supplement of $1,440, and Canada Pension of $2,650. A private pension provides additional income of $2,000 and GICs pay interest of $4,000.
- Ontario's tax cut would save this individual $230 in Ontario personal income tax over four years. By 1999, the amount of Ontario tax payable would be lower by 91.2%.

$435 Total Ontario Tax Savings

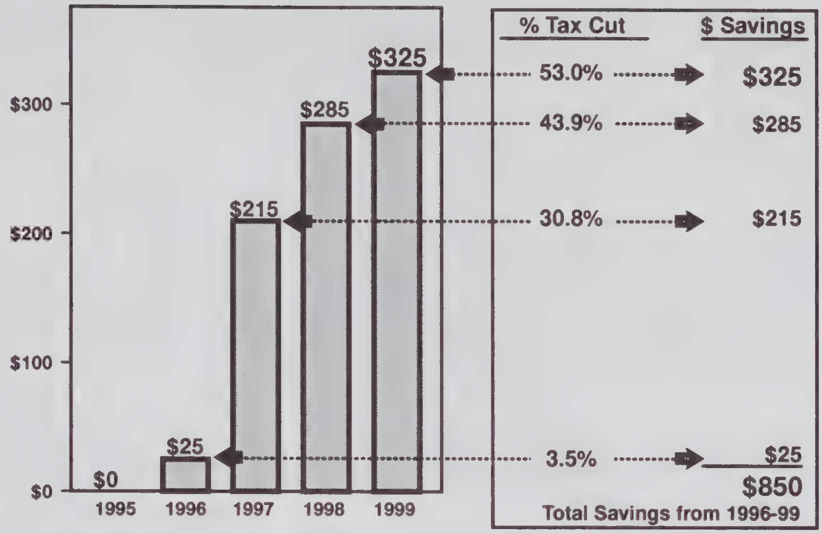
Single Student   Net Income $16,500



- A single student attends university full-time for eight months a year. Annual tuition is $4,000 and ancillary fees are $500.
- This student earns $16,500 as a waiter, working full-time during the summer and part-time while attending school.
- Ontario's tax cut would save this individual $435 in Ontario personal income tax over four years. By 1999, the amount of Ontario tax payable would be lower by 66.3%.

$850 Total Ontario Tax Savings

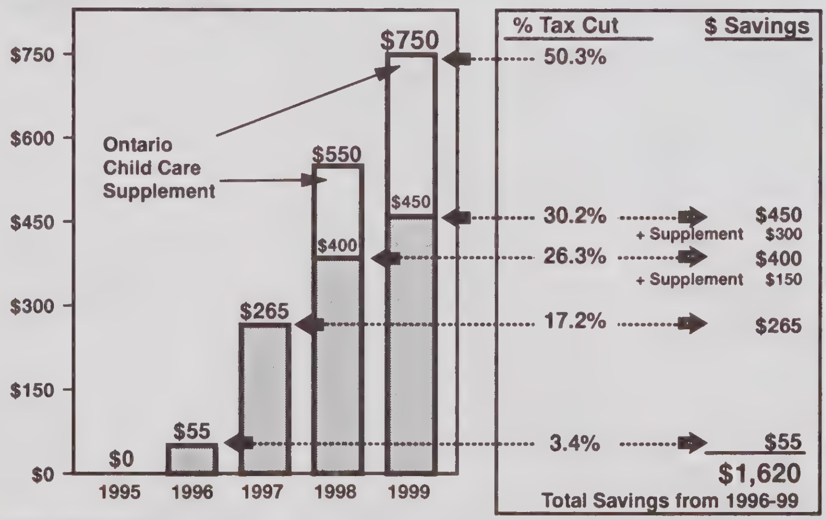
Senior Couple   Net Income $29,000



- Two seniors collect $4,850 each in Old Age Security and $5,000 each from their RRIFs. One receives $5,150 and the other $4,150 in Canada Pension payments.
- Ontario's tax cut would save this senior couple $850 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 53.0%.

$1,620 Total Ontario Tax Savings

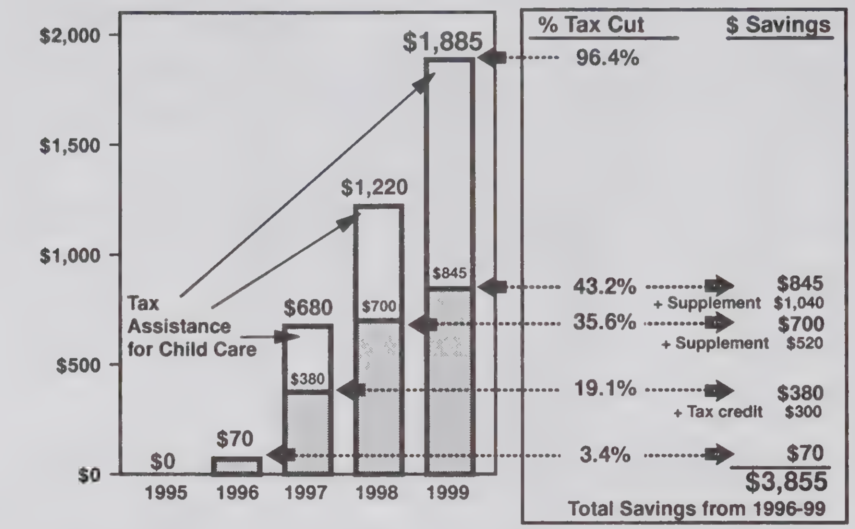
One-earner Couple (Self-employed) with One Child
Net Income $29,000



- One parent earns $29,000 as a freelance journalist. The other parent is currently out of work and cares for their 3-year old child.
- Ontario's tax cut and child care supplement would give this family $1,620 more spending money over four years – consisting of cumulative Ontario tax savings of $1,170, plus child care supplements of $450.
- By 1999, their Ontario tax would be 50.3% less than without these changes.

$3,855 Total Ontario Tax Savings

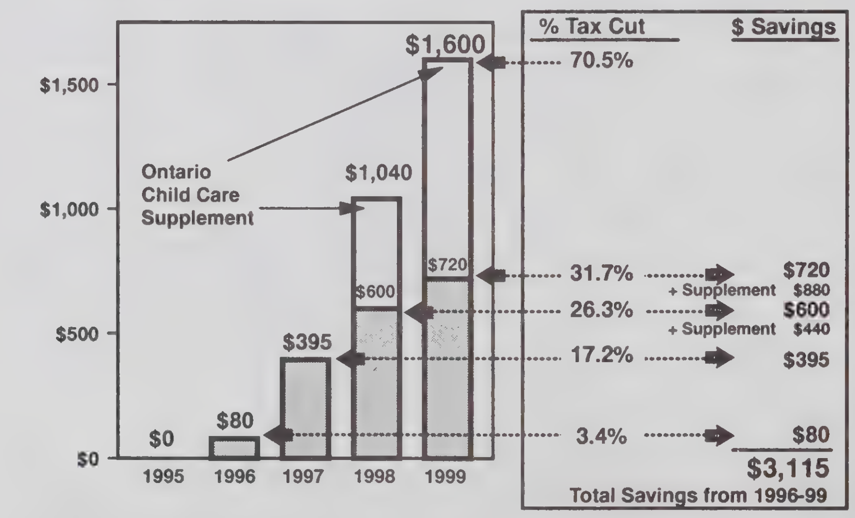
Single Parent with Two Children   Net Income $32,500



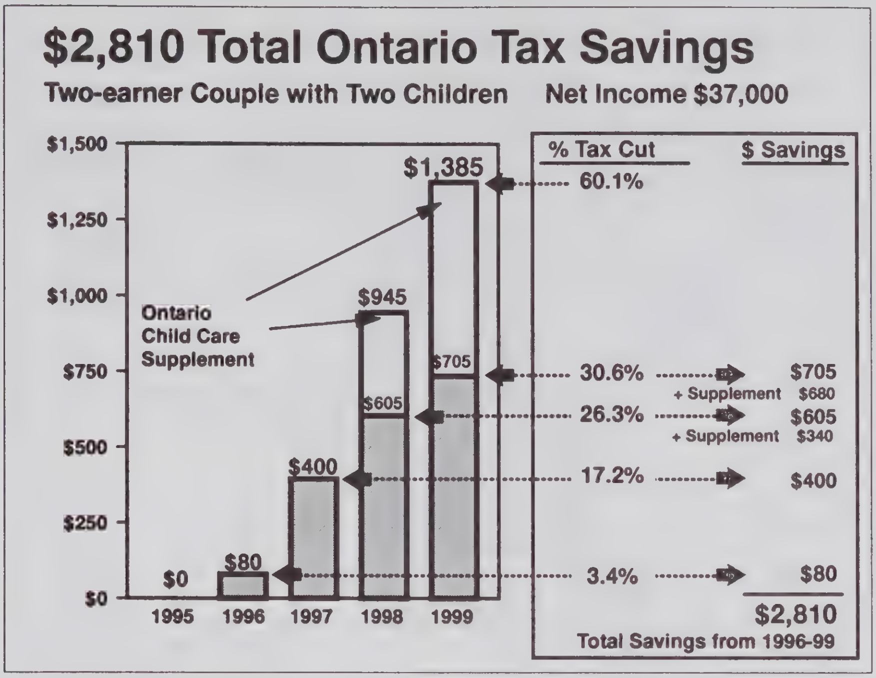
- A single parent with two children (ages 3 and 5) earns $46,000 a year as a registered nurse, pays $850 in union and professional dues and contributes $2,650 to a company pension. Day care for the children costs $10,000 a year.
- Ontario's tax cut would save this single parent $1,995 in personal income tax over four years. When these savings are combined with the child care supplements of $1,860 over the same period, the total benefit would be $3,855.
- By 1999, the amount of Ontario tax would be 96.4% less than without these changes.

$3,115 Total Ontario Tax Savings

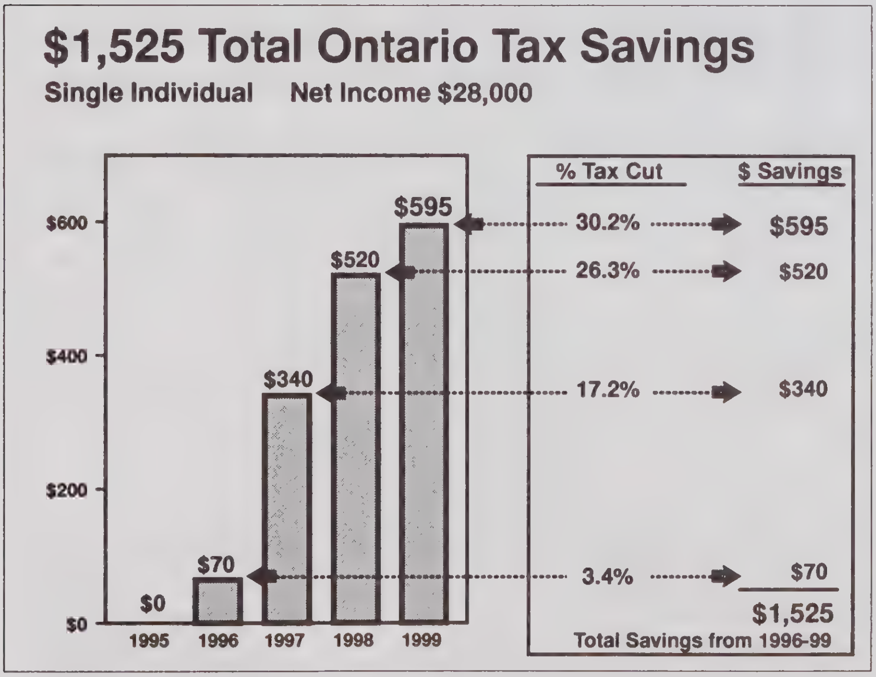
One-earner Couple with Two Children   Net Income $34,500



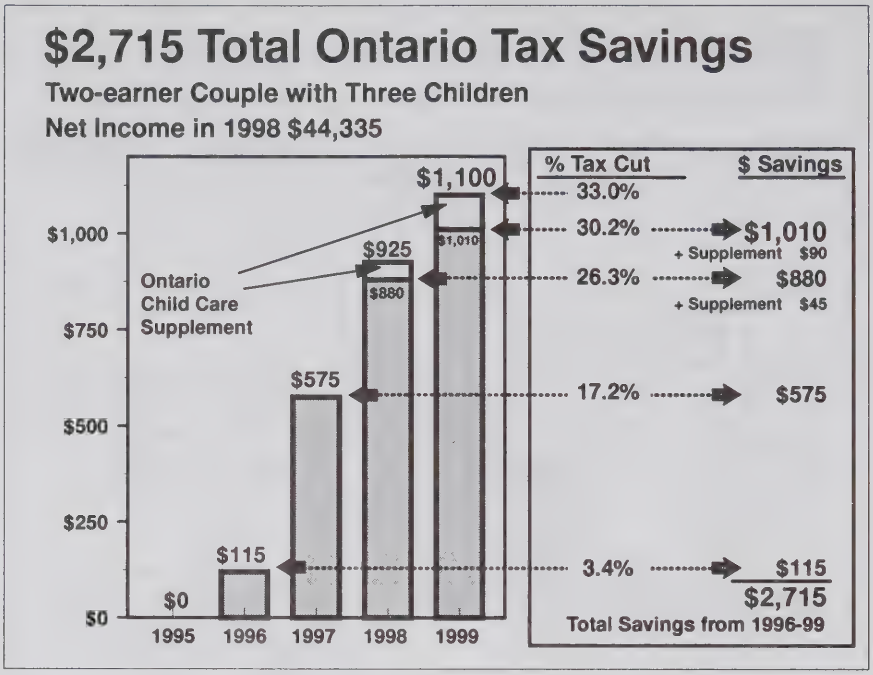
- One parent earns $37,000 a year as a bus driver, pays $500 a year in union dues and contributes $2,000 to a company pension. The other parent stays home to care for their two young children (ages 1 and 3).
- Ontario's tax cut and child care supplement would give this family $3,115 more spending money over four years – consisting of cumulative Ontario tax savings of $1,795, plus child care supplements of $1,320.
- By 1999, their Ontario tax would be 70.5% less than without these changes.



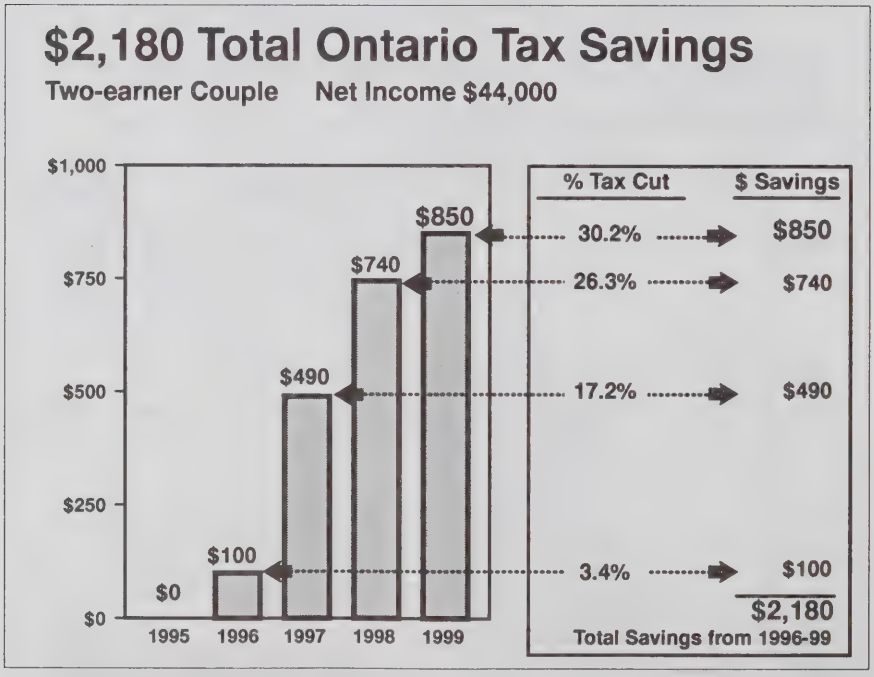
- One parent earns $33,000 a year as a machine operator, pays $600 in union dues and contributes $1,400 a year to a company pension. The other parent, while caring for their two young children (ages 1 and 4) earns $6,000 a year from a home-based business.
- Ontario's tax cut and child care supplement would give this family $2,810 more spending money over four years – consisting of cumulative Ontario tax savings of $1,790, plus child care supplements of $1,020.
- By 1999, their Ontario tax would be 60.1% less than without these changes.



- A single individual with no dependants earns $28,500 a year as a security guard and pays union dues of $500.
- Ontario's tax cut would save this individual $1,525 in Ontario personal income tax over four years. By 1999, the amount of Ontario tax payable would be lower by 30.2%.



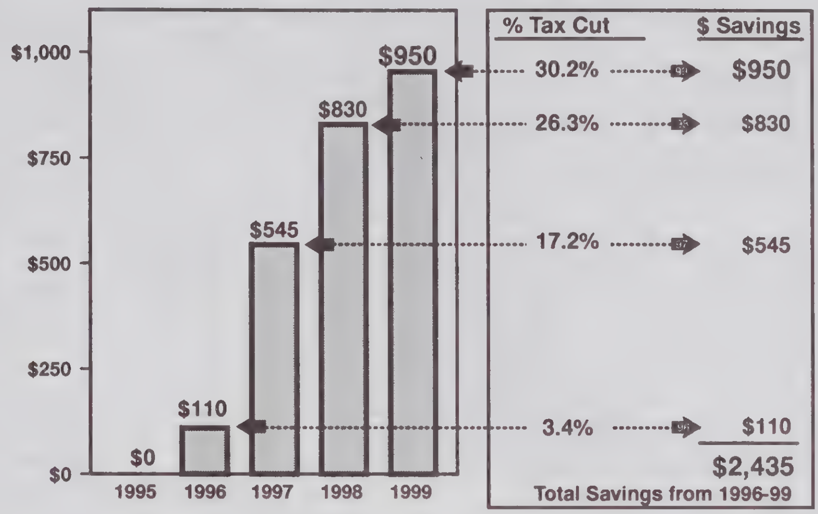
- One parent earns $22,000 a year as a bank teller and contributes $1,000 to a company pension. The other parent works as a sales representative, earning $43,000 a year, and contributes $5,000 to an RRSP.
- Child care costs for their three children (ages 2, 4 and 7) are $15,000 a year.
- Ontario's tax cut and child care supplement would give this family $2,715 more spending money over four years – consisting of cumulative Ontario tax savings of $2,580 plus child care supplements of $135.
- By 1999, their Ontario tax would be 33.0% less than without these changes.



- A recent college graduate earns $15,000 a year working part-time as a telemarketer.
- A recent university graduate is working as an accounting clerk towards an accounting designation. This person earns $29,000 a year.
- Ontario's tax cut would save this couple $2,180 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 30.2%.

$2,435 Total Ontario Tax Savings

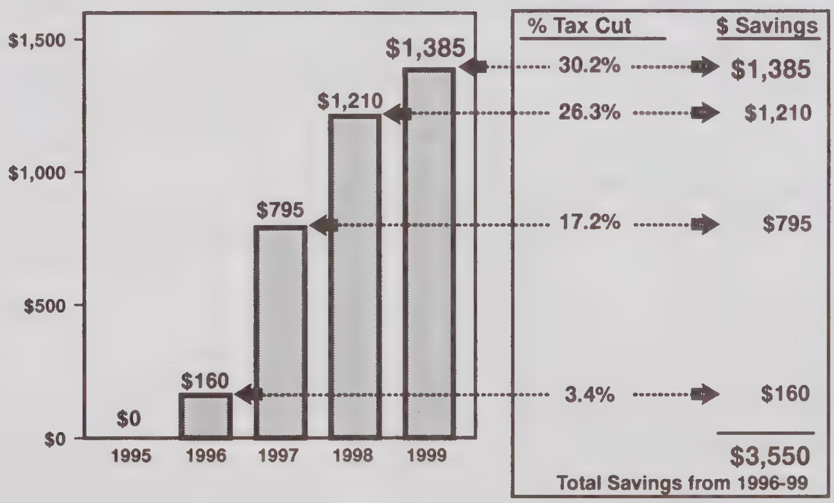
Senior Couple   Net Income $47,700



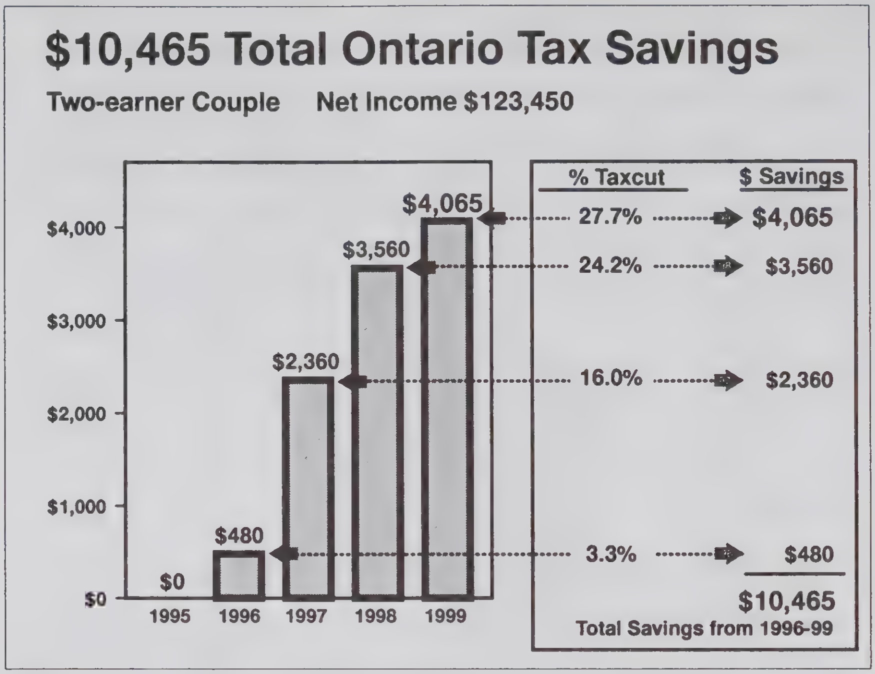
- Both individuals are retired. They each receive $4,850 in Old Age Security and $2,500 in Canada Pension.
- One individual has a company pension of $29,000 a year. The other individual receives annual annuity payments of $1,000. They each report interest income of $1,500.
- Ontario's tax cut would save this couple $2,435 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 30.2%.

$3,550 Total Ontario Tax Savings

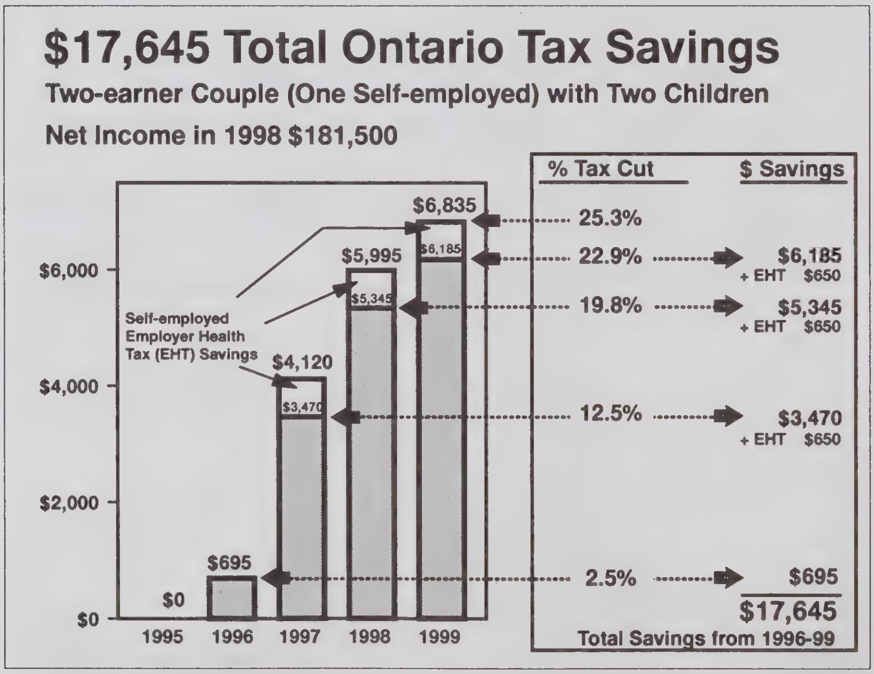
Two-earner Couple with Two Children   Net Income $60,000



- One parent earns $35,000 a year as a computer operator. The other parent is a clerk typist, making $25,000 a year.
- No child care costs are incurred for their two school-aged children (ages 12 and 15).
- Ontario's tax cut would save this family $3,550 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 30.2%.



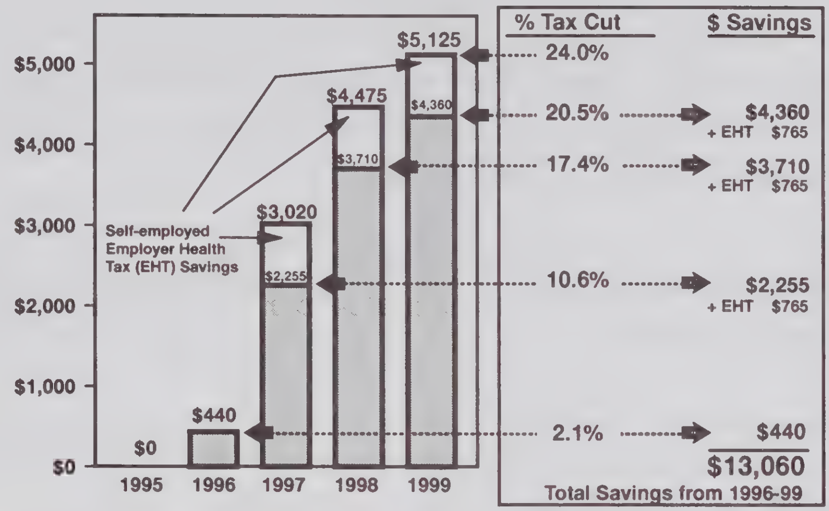
- A professor earns $75,000 a year and contributes $4,300 annually to the university pension.
- A teacher earns $58,000, pays $750 in union dues and contributes $4,500 a year to the teachers' pension fund.
- Ontario's tax cut would save this couple $10,465 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 27.7%.



- A self-employed lawyer makes $125,000 a year and contributes $13,500 to an RRSP. An engineer at a large telecommunications company earns $84,000 a year. Their two young children (ages 2 and 4) are cared for in their home by a nanny, at a cost of $18,000 a year.
- Ontario's tax cut would save this family $15,695 in Ontario personal income tax and $1,950 in self-employed EHT over four years for total savings of $17,645. By 1999, their Ontario tax would be 25.3% less than without these changes.

$13,060 Total Ontario Tax Savings

Single Individual (Self-employed) Net Income $126,500

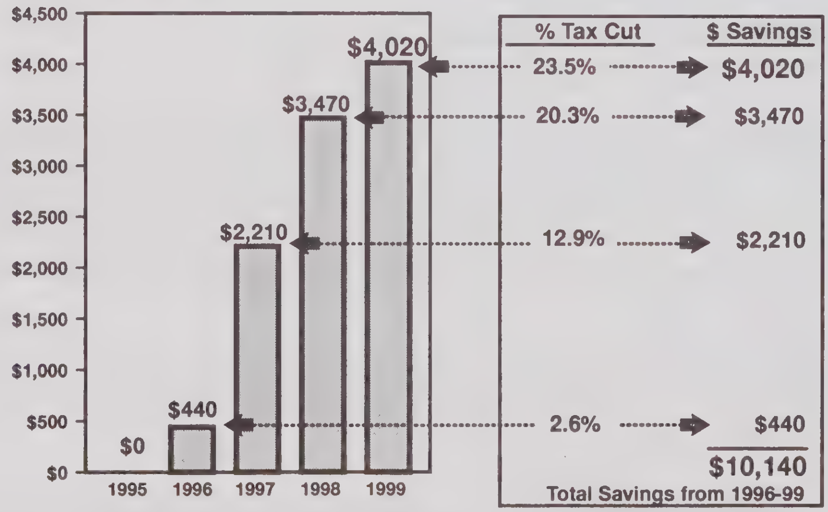


- A single doctor, with no dependants, earns $140,000 a year and contributes $13,500 to an RRSP.
- Ontario's tax cut would save this individual $10,765 in Ontario personal income tax and $2,295 in self-employed EHT over four years for total savings of $13,060. By 1999, the amount of Ontario tax would be 24% less than without these changes.

$10,140 Total Ontario Tax Savings

Two-earner Couple (Owner-managed Business) with Three Children

Net Income $186,500



- Each parent owns 50% of the family's incorporated lumber business. As a shareholder of the company, each parent receives an annual dividend of $50,000.
- One parent also receives a salary of $75,000 a year and contributes $13,500 to an RRSP. The other parent stays home to care for their three children (ages 5, 8, and 10).
- Ontario's tax cut would save this family $10,140 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 23.5%.

Conclusion

Ontario's tax cuts benefit all taxpayers.

People with lower incomes get the greatest percentage tax reductions. On average, the 20 per cent of taxpayers who report less than $19,675 would receive an average tax cut of 42.8 per cent.

Middle income people get the largest share of the tax cut. Sixty-four per cent of the tax cut would be delivered to people reporting between $25,000 and $75,000 of income.

People reporting high incomes also share in the tax cut but receive lower percentage benefits. On average, the top 0.5 per cent of taxpayers in Ontario may look forward to a 18.0 per cent tax cut.

Details of Revenue Measures

The following sections provide information on the taxation measures in the Budget. For a precise description of these measures, the reader is advised to consult the amending legislation.

Income Tax Act

Completing the 30 Per Cent Ontario Tax Rate Cut

The Ontario personal income tax rate is set as a percentage of Basic Federal Tax. In 1995, the Ontario tax rate was 58 per cent of Basic Federal Tax. This budget proposes to complete the 30.2 per cent rate cut.

- Effective July 1, 1998, the Ontario personal income tax rate is proposed to be reduced from 45 per cent of Basic Federal Tax to 40.5 per cent of Basic Federal Tax.
  - For the 1998 taxation year, the Ontario personal income tax rate would be 42.75 per cent of Basic Federal Tax.
- For the 1999 and subsequent taxation years, the Ontario personal income tax rate is proposed to be 40.5 per cent of Basic Federal Tax.

Fair Share Health Care Levy

The Fair Share Health Care Levy (FSHCL) is a surtax applied to basic Ontario income tax. This levy does not apply to taxpayers reporting less than $50,980 of income. The FSHCL has two tiers. To complement the income tax cut, adjustments have been made to the thresholds above which the FSHCL rates apply. Further adjustments to the top FSHCL rate and threshold have been made to offset the cost of the Employer Health Tax exemption.

- Effective July 1, 1998, the FSHCL is proposed to be calculated as 20 per cent of Ontario income tax in excess of $3,845 plus 36 per cent of Ontario income tax in excess of $4,800.
  - For the 1998 taxation year, the FSHCL would equal 20 per cent of Ontario income tax in excess of $4,057.50 plus 33 per cent of Ontario income tax in excess of $5,217.50.
- For the 1999 and subsequent taxation years, the FSHCL is proposed to be calculated as 20 per cent of Ontario income tax in excess of $3,845 plus 36 per cent of Ontario income tax in excess of $4,800.

Ontario Tax Reduction

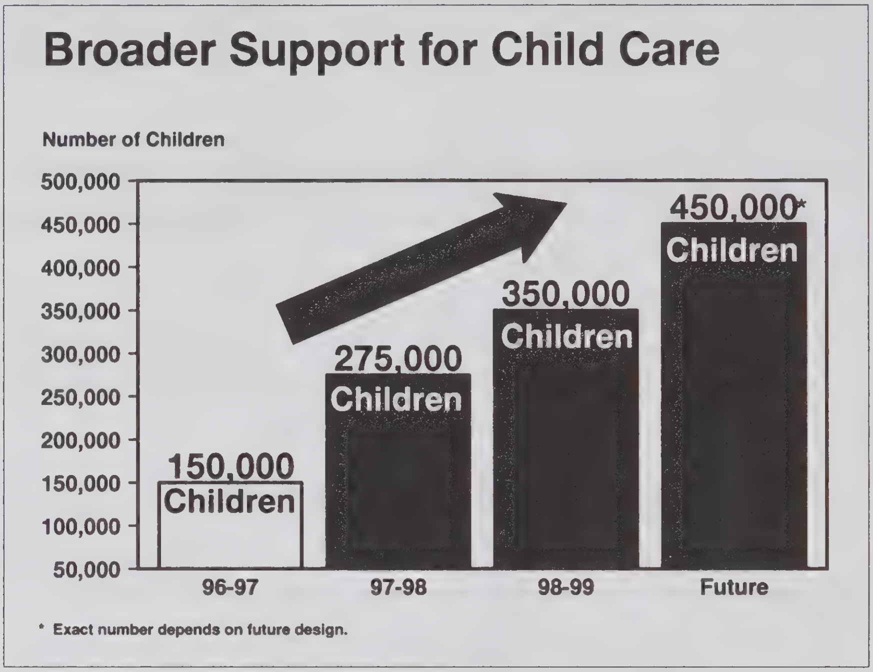
The Ontario Tax Reduction reduces or eliminates Ontario income tax payable by taxpayers with low incomes. A "basic amount" ensures that all low income taxpayers are eligible to benefit from this program and "supplements" provide additional tax reductions to taxpayers who have dependent children and disabled dependants. For the third year in a row, low income taxpayers will receive improved benefits from enrichments to the Ontario Tax Reduction program.

- Effective July 1, 1998, the basic reduction would be $160 and the amount in respect of each dependent child age 18 or under and each dependant with a disability would be $325.

Enhanced Support for Families with Children

In the 1997 Budget, Ontario introduced a refundable tax credit for lower income families who incur child care expenses. This $40 million child care tax credit provided up to $400 for each child under age 7 to 90,000 families for 125,000 children.

The Ontario child care tax credit is proposed to be combined with $100 million in funds made available by the National Child Benefit initiative to create a new $140 million Ontario Child Care Supplement for Working Families that would be delivered monthly to 210,000 families for 350,000 children under age 7.



The maximum annual benefit would be $1,020 for each child under age 7. This represents more than a doubling of assistance provided under the former child care tax credit. Also, working families where one parent stays at home to care for their young children would be eligible.

Which Families Would be Eligible?

- Low and middle income working families with children under age 7 would be eligible. Families incurring qualifying child care expenses in order to attend school or obtain training would also be eligible for benefits.

How Would Benefits be Calculated?

- For families with earnings from work (including self-employment), benefits would be calculated as a percentage of earnings in excess of $5,000, depending upon the number of children under age 7.

  - Benefits are proposed to be 20 per cent of earnings above $5,000 for a family with one child under age 7, 40 per cent for a family

with two children under age 7 and 60 per cent for a family with three or more children under age 7.

- The maximum annual benefit would be $1,020 multiplied by the number of children under age 7.

- Parents with earnings below $5,000 who incur child care expenses in order to attend school or obtain training would qualify for an annual benefit equal to 50 per cent of qualifying child care expenses, up to a maximum of $1,020 for each child under age 7.

- Where a family has earnings from work and qualifying child care expenses, the annual benefit would be equal to the greater of the two benefits described above.

- Benefits would be reduced by 8 per cent of family net income in excess of $20,000. Benefits for families receiving child care subsidies would be further adjusted to reflect child care costs covered by these subsidies.

- The calculated annual benefit would be paid by Ontario in equal monthly instalments to the same parent who receives the federal Child Tax Benefit.

When Would Benefits Start?

- This year families would be required to apply for the benefit by September 30, 1998. Benefits would accrue from July 1998, and the first payment of accumulated benefits would be made late this year. Thereafter, benefits would be paid monthly.

- In subsequent years families would be required to apply for benefits by June 30.

- Benefit entitlements for the period July 1998 to June 1999 would be calculated on the basis of amounts reported on the 1997 tax return and federal Child Tax Benefit information.

- Benefit entitlements would be recalculated every July based on the tax information for the previous taxation year and federal Child Tax Benefit information.

Employer Health Tax Act

Employer Health Tax Exemption

The Employer Health Tax is a payroll tax which applies to all employers in Ontario. In 1997, a $200,000 payroll exemption was introduced. This exemption applies exclusively to private-sector employers. This exemption rose to $300,000 on January 1, 1998 and was scheduled to increase to $400,000 effective January 1, 1999. The final step of the $400,000 exemption is proposed to be accelerated.

- In order to give effect to a $400,000 exemption beginning July 1, 1998, the payroll level above which the Employer Health Tax becomes payable is proposed to be increased to $350,000 for the 1998 taxation year.

Self-Employed Individuals

The employer health tax also applies to self-employed individuals.

- To parallel the acceleration of the $400,000 exemption, the tax exemption on self-employment income is also proposed to be $350,000 for the 1998 taxation year. In 1999, the tax on self-employed individuals will be eliminated.

Community Small Business Investment Funds Act

In 1997, Ontario introduced the Community Small Business Investment Fund (CSBIF) Program to promote greater access to investment capital for growing businesses with $1 million or less in assets. Incentives were provided to encourage Labour Sponsored Investment Funds (LSIFs) and financial institutions to participate in this initiative.

In 1998, it is proposed that the CSBIF program be refined and enhanced to increase the flow of investment capital to Ontario's small business sector.

- To encourage local participation in CSBIFs, a 15 per cent incentive is proposed for individuals investing between $150,000 and $500,000 in a CSBIF in 1998. One-half of the incentive would be made available

when the investment is made in a CSBIF and the remainder would be made available when the CSBIF invests in eligible businesses.

- The time limit for LSIFs to invest funds already set aside for CSBIF investment would be extended until the end of 1998 to allow sufficient time for the organization and registration of CSBIFs.

- It is proposed that funds set aside this year in respect of 1998 investment requirements must be transferred to a CSBIF by the end of 1999.

- The federal government will be asked to recognize LSIF investments in CSBIFs as eligible for the enhanced federal Labour Sponsored Venture Capital Corporations small business investment incentive.

- Other technical amendments will be proposed to ensure the proper functioning of the program, and to provide for the extension to the deadline for LSIF claims by taxpayers affected by the ice storm.

Land Transfer Tax Act

Land Transfer Tax Refund for First-time New Home Buyers Extended

This temporary refund program applies to the purchase of a newly-built home by a first-time home buyer. Under the current program, the agreement of purchase and sale must be completed on or before March 31, 1998 and the purchaser must take possession of the house by December 31, 1998, and the transfer must be registered by December 31, 1999. The refund is equal to tax paid or payable, to a maximum of $1,725.

- As announced on April 1, 1998, legislation will be introduced to extend this program for one year.

Retail Sales Tax Act

Retail sales tax legislation will be introduced to implement the following proposals.

Extend the Rebate on Building Materials for Farmers

As announced on April 1, 1998, legislation will be introduced to extend the temporary rebate for retail sales tax paid on building materials purchased by farmers until March 31, 1999 and the deadline for submitting claims to December 31, 1999.

- The program eligibility rules would remain unchanged.

Expand the Rebate on Vehicles for Persons with Physical Disabilities

Amendments will be introduced to expand the current retail sales tax rebate relating to the purchase of a qualifying motor vehicle used to transport a person with a permanent physical disability.

- It is proposed to expand eligibility to defined individual caregivers who provide proof of an ongoing caregiving relationship with a person with a permanent physical disability.

Twenty-five Cent Coin Charges for Local Telephone Calls

Legislation will be introduced to exempt twenty-five cent local telephone calls, made by coin, from retail sales tax effective May 6, 1998.

Corporations Tax Act

Income Tax Rate Reduction for Small Business

The small business deduction reduces the Ontario corporate income tax rate from 15.5 per cent to 9.5 per cent for small Canadian-controlled private corporations on their first $200,000 of active business income. The Government will introduce legislation to further reduce the small business corporate income tax rate to 4.75 per cent over the next eight years by annual increases to the small business deduction.

- Effective May 5, 1998, the small business corporate income tax rate is proposed to be reduced to 9.0 per cent. The tax rate reduction would be prorated for taxation years straddling May 5, 1998.

- Effective January 1, 1999, the small business corporate income tax rate would be reduced to 8.5 per cent. A 0.5 percentage point reduction would follow each January 1st, until January 1, 2005, when the rate would be 5.5 per cent. On January 1, 2006, the small business corporate income tax rate would be reduced to 4.75 per cent. The tax rate reductions would be prorated for taxation years straddling the adjustment dates.

- The benefit of the small business deduction would continue to be gradually reduced where taxable income is greater than $200,000, and eliminated where taxable income is $500,000 and above.

Ontario Interactive Digital Media Tax Credit

Ontario will introduce legislation to provide a new 20 per cent refundable tax credit to small corporations for qualifying Ontario labour expenditures incurred to create interactive digital media products in Ontario.

Eligible Interactive Digital Media Products

- It is proposed that eligible interactive digital media products would be those that:

  - are developed by a qualifying corporation in Ontario for commercial exploitation with the copyright owned by the corporation;

  - are delivered electronically, for example, via CD-ROM or the Internet, in digital format;

  - are interactive, where users have the ability to direct the course of their immediate interaction with the electronic product; and

  - integrate the following media: text, audio and video.

- It is proposed that ineligible products would include those:

  - used for interpersonal communications;

  - used primarily to present or promote the qualifying corporation, its products or its services;

- which contain subject matter that is considered inappropriate for public funding such as pornography; or

- developed under a fee-for-service arrangement.

Qualifying Corporation

♦ It is proposed that a qualifying corporation would be a Canadian corporation that:

- has a permanent establishment in Ontario;

- on an associated company basis, has neither annual gross revenues in excess of $10 million nor total assets in excess of $5 million; and

- is not exempt from taxation under the *Corporations Tax Act*.

Qualifying Ontario Labour Expenditures

♦ It is proposed that qualifying Ontario labour expenditures would be salaries and wages:

- paid to Ontario-based individuals who report to a permanent establishment of the corporation in Ontario;

- incurred in performing activities that result in the development of the eligible interactive digital media product; and

- incurred after June 30, 1998.

♦ An Ontario-based individual would be one who was a resident of Ontario at the end of the calendar year prior to the one in which the salary or wage was incurred.

Tax Credit

It is proposed that:

♦ the Ontario Interactive Digital Media tax credit would be calculated at a rate of 20 per cent of qualifying Ontario labour expenditures;

- to claim the tax credit, a certificate of eligibility would have to be filed with the qualifying corporation's tax return under the *Corporations Tax Act*; and

- the credit would be applied against outstanding Ontario tax liabilities and any excess refunded.

Enrichment of the Ontario Computer Animation and Special Effects Tax Credit

The Ontario Computer Animation and Special Effects (OCASE) tax credit is a 20 per cent refundable tax credit available to corporations for Ontario labour expenditures incurred in respect of digital animation and digital visual effects carried out in Ontario for use in film and television productions.

It is proposed that effective for labour expenditures incurred after May 5, 1998, the OCASE tax credit would be enhanced as follows:

- the annual tax credit maximum of $500,000 per associated group of corporations would be eliminated.

- the tax credit would be extended to OCASE activities for television productions under 30 minutes.

Ontario Sound Recording Tax Credit

Ontario will introduce legislation to provide a new 20 per cent refundable tax credit to small Ontario-based sound recording companies for qualifying expenditures related to sound recordings by emerging Canadian artists. The credit would be effective for expenditures incurred after January 1, 1999.

Implementing Previous Film Tax Credit Announcements

As announced in November 1997, it is proposed that the *Corporations Tax Act* be amended to enhance the Ontario Film and Television Tax Credit and to introduce the 11 per cent Ontario Production Services Tax Credit.

Ontario Film and Television Tax Credit

The Ontario Film and Television Tax Credit is a 20 per cent refundable tax credit available to Ontario-based, Canadian-controlled production companies producing eligible film and television productions in Ontario.

- It is proposed that effective for productions commencing principal photography on or after November 1, 1997, eligible genres would be expanded to include variety, educational, instructional, and magazine format programming and the per-project and annual tax credit limits eliminated.

Ontario Production Services Tax Credit

- It is proposed that effective November 1, 1997, an 11 per cent refundable tax credit on qualifying Ontario labour expenditures would be available for foreign-based and domestic productions in Ontario that do not qualify for the Ontario Film and Television Tax Credit.

Workplace Child Care Tax Incentive

A new tax incentive is proposed to support businesses that create additional licensed child care facilities or improve existing child care facilities for children of working parents.

Tax Incentive

- The proposed incentive would be available to incorporated and unincorporated businesses, other than those in the business of providing child care.

- Corporations would be eligible to claim a super deduction of 30 per cent of qualifying expenditures. Individuals carrying on unincorporated businesses would be eligible to claim a refundable tax credit of 5 per cent of qualifying expenditures.

- Where a corporation allocates part of its taxable income to another jurisdiction, the deduction would be grossed-up by its Ontario allocation factor to ensure that the full benefit of the incentive is realized.

- For partnerships, the proposed incentive would be shared by the partners in a manner consistent with other Ontario tax incentives.

- The proposed incentive would be a once-only claim and separate from, and in addition to, other deductions available for income tax purposes in respect of the qualifying expenditures.

Qualifying Expenditures

- Qualifying expenditures would be:

  - capital costs of the construction of new on-site licensed child care facilities in Ontario, or capital renovations of existing child care facilities; or

  - contributions made by a business to an unrelated entity that are used to fund the capital cost of new licensed child care facilities in Ontario, or capital renovations of existing child care facilities.

- Capital costs would be expenditures described in Capital Cost Allowance classes 1, 3, 6 and 13 of the federal Income Tax Regulations.

When to Claim the Incentive

- The proposed incentive would be available in the taxation year in which the property first qualified for Capital Cost Allowance, or if the qualifying expenditure were a contribution to an unrelated entity, in the taxation year in which the contribution was made.

Effective Date

- The proposed incentive would apply to capital costs for construction or renovations incurred after May 5, 1998, and to contributions made after May 5, 1998.

Workplace Accessibility Tax Incentive

For employers that hire an eligible person with a disability, a new tax incentive is proposed to be made available in respect of qualifying expenditures incurred to accommodate that person.

Tax Incentive

- The proposed deduction for corporations would be an additional 100 per cent of qualifying expenditures incurred in a taxation year to a maximum of $50,000 per eligible employee.

- An equivalent incentive is proposed to be extended to unincorporated employers.

- This proposed incentive would be a once-only claim and would be separate from, and in addition to, normal deductions allowed for income tax purposes in respect of the qualifying expenditures.

- Where a corporation allocates part of its taxable income to another jurisdiction, the deduction would be grossed-up by the Ontario allocation factor to ensure that the full benefit of the incentive is realized.

- For partnerships, the proposed incentive would be shared by the partners in a manner consistent with other Ontario tax incentives.

Qualifying Expenditures

- It is proposed that qualifying expenditures be expenditures made in Ontario that are allowed as deductions under paragraphs 20(1)(qq) (disability-related modifications) and 20(1)(rr) (disability-related equipment) of the *Income Tax Act* (Canada), and other such expenditures as prescribed.

Effective Date

- The proposed incentive would apply to qualifying expenditures incurred after July 1, 1998.

Ontario Commercial and Industrial Education Tax Cut Plan

The Government will be introducing legislation to cut education taxes on commercial and industrial properties in municipalities with higher than average education tax rates.

The Government also proposes to increase grants to school boards to offset the impact of cutting education taxes. This would ensure that adequate funding for education is maintained.

Starting in 1998, the Province proposes to phase in the commercial and industrial education tax reduction over eight years for businesses in those single- and upper-tier municipalities that have average commercial or industrial education tax rates above 3.3 per cent — the estimated current provincial average. For each year, commercial and industrial education taxes would be reduced by 1/8 or 12.5 per cent of the difference between the 1998 above-average commercial or industrial education tax rate in the municipality and the 1998 provincial average.

The table below shows the estimated education tax reduction that would be provided to commercial and industrial properties in each municipality for 1998 and 2005, when the tax cut would be fully implemented.

Distribution of Proposed Commercial and Industrial Education Tax Cuts by Municipality

	Property Class	1998 Tax Cut ($)	Fully Implemented 2005 Tax Cut ($)	Fully Implemented % Cut in Education Taxes
Algoma District	Industrial	25,180	201,400	1.2%
Brant County	Industrial	254,950	2,039,600	21.6%
Cochrane District	Industrial	122,410	979,300	8.5%
Durham Region	Industrial	987,210	7,897,700	21.8%
Elgin County	Industrial	152,500	1,220,000	19.2%
Essex County	Industrial	1,117,230	8,937,800	22.4%
Frontenac County	Industrial	158,050	1,264,400	24.4%
Grey County	Industrial	114,860	918,900	26.4%
Haldimand - Norfolk Region	Industrial	222,780	1,782,200	21.2%
Halton Region	Industrial	159,210	1,273,700	3.3%
Hamilton - Wentworth Region	Industrial	2,538,290	20,306,300	44.0%
Hastings County	Industrial	159,180	1,273,400	17.6%
Kenora District	Industrial	159,650	1,277,200	20.0%
Kent County	Industrial	98,980	791,800	11.2%
Lambton County	Industrial	394,560	3,156,500	21.3%
Lanark County	Industrial	94,130	753,000	26.9%
Leeds and Grenville County	Industrial	409,110	3,272,900	39.0%
Lennox and Addington County	Industrial	103,710	829,700	21.0%
Middlesex County	Industrial	581,440	4,651,500	26.0%
Niagara Region	Industrial	1,551,030	12,408,200	37.3%
Nipissing District	Industrial	93,330	746,600	24.9%
Northumberland County	Industrial	210,560	1,684,500	27.1%
Ottawa - Carleton Region	Industrial	323,150	2,585,200	12.7%
Oxford County	Industrial	220,880	1,767,000	13.8%
Perth County	Industrial	74,280	594,200	9.1%
Peterborough County	Industrial	143,540	1,148,300	21.4%
Prescott - Russell County	Industrial	31,080	248,600	10.6%
Rainy River District	Industrial	60,960	487,700	20.9%
Rainy River District	Commercial	6,180	49,400	2.5%
Renfrew County	Industrial	210,000	1,680,000	35.4%
Simcoe County	Industrial	367,240	2,937,900	18.3%
Stormont, Dundas and Glengarry County	Industrial	328,090	2,624,700	33.4%

Distribution of Proposed Commercial and Industrial Education Tax Cuts by Municipality

	Property Class	1998 Tax Cut ($)	Fully Implemented 2005 Tax Cut ($)	Fully Implemented % Cut in Education Taxes
Sudbury District	Industrial	139,490	1,115,900	32.8%
Sudbury District	Commercial	12,600	100,800	5.5%
Thunder Bay District	Industrial	498,300	3,986,400	18.6%
Thunder Bay District	Commercial	10,740	85,900	0.3%
Timiskaming District	Industrial	13,530	108,200	7.5%
Timiskaming District	Commercial	4,880	39,000	0.9%
Toronto	Industrial	14,000,100	112,000,800	50.6%
Toronto	Commercial	36,307,060	290,456,500	25.3%
Waterloo Region	Industrial	927,800	7,422,400	18.0%
Wellington County	Industrial	367,450	2,939,600	18.1%
Total		**63,755,700**	**510,045,100**	**26.9%**

Notes:

- The proposed commercial and industrial education tax cut estimates for each municipality are based on preliminary 1998 assessment data and may be adjusted once assessment data and provincial education rates are finalized.

- The proposed percentage cut in education taxes has been estimated as an average decrease for the overall commercial or industrial class in the region, county or district.

Making the Tax System Fairer

Ontario will introduce legislation to improve the fairness of the tax system and ensure that all taxpayers pay their fair share of taxes.

Tax Fairness

Changes are proposed to certain Ontario tax statutes to ensure that the tax system operates fairly and that taxpayers do not reduce their taxes unduly by using legislative provisions to obtain an unintended benefit. These include the following proposed amendments:

Corporations Tax Act

- Rules would be introduced to prevent the undue reduction of provincial tax by corporations through the manipulation of claims for discretionary deductions and reserves in taxation years where there

are significant changes in the proportionate amount of taxable income that a corporation allocates to Ontario.

- Amendments will be introduced effective May 5, 1998 to the rules added in 1997 in the *Corporations Tax Act* which deal with inter-provincial asset transfers. These changes would make the Ontario rules more effective and align them more closely with similar rules enacted by Quebec.

  - A corporation would qualify as an Ontario corporation in a taxation year only if it allocates at least 90 per cent of its taxable income to Ontario for the taxation year in which the transfer is made. Partnerships would qualify as Ontario partnerships under similar rules.

  - Where there is a transfer of property between Ontario corporations or partnerships, it is proposed that the parties may elect for Ontario purposes that the property be transferred at an amount between the federal elected amount and the federal elected amount plus or minus the difference between the federal and Ontario cost amounts of the property.

  - The anti-avoidance rules contained in subsections 29.1(6), 31.1(6) and 34(10.3) of the Act, which currently apply to Ontario corporations and partnerships in situations where tax is being avoided, would be amended to provide that the rules apply where the transaction results in an increase as well as a decrease to elected or designated amounts. These rules would also be extended to apply to all corporations where tax is being avoided in respect of Class 3 buildings acquired after November 12, 1981 and before October 25, 1985, foreign resource properties, and other prescribed transactions.

- The 1997 Ontario Budget announced a capital tax rule to prevent corporations increasing their investment allowance and artificially reduce taxable paid-up capital by making loans or advances immediately before year-end to related corporations. Effective for taxation years ending on or after October 31, 1998, legislation will be introduced to make this rule applicable to other types of investments that qualify for the investment allowance, i.e., shares, bonds and lien notes.

Employer Health Tax Act

- In some instances, employers can avoid employer health tax through arrangements where an employee is paid directly by a third party for services provided to the third party. In order to prevent such tax avoidance, legislation will be introduced to require employers to pay employer health tax on remuneration paid by a third party to an employee where all of the following conditions are met:

  - a service is provided in Ontario by the employee to the third party;
  - the service is performed for the third party as an employee of the employer;
  - the service provided is the same as the employee's core function that he or she normally performs for the employer;
  - it is reasonable to consider that the third party would not engage the employee to provide the service if it were not for the employment relationship that the employee has with his or her employer;
  - no reasonable amount of remuneration has been paid by the employer to the employee in respect of the services provided to the third party; and
  - the remuneration paid by the third party is not otherwise subject to employer health tax.

  This measure would take effect on January 1, 1999.

Retail Sales Tax Act

- Amendments will be introduced to ensure that asset rollover provisions work properly to eliminate double taxation and are not being abused.

Addressing the Underground Economy

Ontario will introduce a number of initiatives targeted at the underground economy and tax evasion. These proposed initiatives will include the following:

- modifying the Motor Vehicle Transfer System to ensure that sales of all motor vehicles, whether new or used, are accurately recorded and that tax is properly collected for the purposes of the *Retail Sales Tax Act*;

- enhancing prohibitions relating to the placement of coloured fuel in the tank of a licensed motor vehicle in the *Fuel Tax Act;*

- adding a penalty to the *Tobacco Tax Act* for persons in possession of unmarked cigarettes to discourage smuggling;

- increasing other fines and penalties under the *Tobacco Tax Act* and *Retail Sales Tax Act;* and

- amending the 5 per cent penalty under the *Corporations Tax Act* for filing a late or incomplete return to adopt the federal *Income Tax Act* provisions which increase the penalty by 1 per cent per month (maximum 12 months) while the return is outstanding and double the penalty for multiple occurrences.

Simplification

Ontario will introduce a number of measures to simplify tax legislation and provide fair and consistent treatment of taxpayers. These proposed measures will include:

- introducing legislation across all tax statutes to better protect taxpayers by enhancing the rules that safeguard the confidentiality of information supplied by taxpayers;

- amending Ontario tax statutes and regulations to increase the interest rate to the prime rate on amounts refunded to taxpayers whose tax issues, under the objections and appeals process, are resolved in the taxpayers' favour. The rate increase would be effective January 1, 1999 with the exception of refunds issued under the *Corporations Tax Act*, *Mining Tax Act* and *Employer Health Tax Act*. Under these

statutes, the measure would apply to refunds arising from objections or appeals for 1998 and subsequent taxation years.

- amending the *Corporations Tax Act* effective for taxation years ending on or after October 31, 1998, to adopt the treatment under the federal Large Corporations Tax for the following items:

  - the inclusion in taxable capital of a deferred revenue item and the eligibility of the corresponding advance made by the payer for an investment allowance;

  - the eligibility of an investment in a stripped coupon for an investment allowance where the underlying bond qualifies; and

  - the exclusion for investment allowance purposes of an investment in a financial institution, other than an investment in a share or long-term debt of a financial institution;

- simplifying the administration of the "fairness" legislation as it applies to Ontario tax credits claimed under the *Income Tax Act*;

- amending the *Retail Sales Tax Act* regulations to make the treatment of transfers of assets between partnerships and their principals consistent with that of transfers between corporations and their shareholders, and of transfers from one related corporation to another;

- minimizing red tape for fuel exporters by amending the *Fuel Tax Act* and the *Gasoline Tax Act* to remove provisions requiring exporters to give advance notice of their intent to remove motive fuels in bulk from Ontario;

- amending the *Gasoline Tax Act* to implement the 1997 Budget initiative to optimize cash flows by bringing tax remittance dates in line with those of the federal *Excise Tax Act*. Ontario will work with the petroleum industry to implement these changes.

- amending the *Corporations Tax Act* and *Income Tax Act* where applicable to maintain concordance with recent amendments to the federal *Income Tax Act*.

Technical Amendments

To improve administrative effectiveness and maintain the technical integrity of the tax system, various changes will be introduced to the following Ontario tax statutes:

- *Income Tax Act*
- *Corporations Tax Act*
- *Land Transfer Tax Act*
- *Retail Sales Tax Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Race Tracks Tax Act*
- *Tobacco Tax Act*

Revenue Changes: 1998 Budget Impact Summary

	1998-1999 ($ million)	Full Year ($million)
Income Tax Act		
PIT Cut	(946)	(4,815)
Fair Share Health Care Levy	40	260
Subtotal	**(906)**	**(4,555)**
Enriched Ontario Tax Reduction	(8)	(40)
Employer Health Tax Act		
EHT Exemption	(24)	(260)
S-EHT Elimination	(3)	(30)
Corporations Tax Act		
Income Tax Cut for Small Business	(30)	(280)
Workplace Child Care Tax Incentive*	(8)	(10)
Workplace Accessibility Tax Incentive*	(5)	(7)
Interactive Digital Media Credit	(5)	(10)
Enrichment of the Ontario Computer Animation and Special Effects Tax Credit	(1)	(1)
Sound Recording Tax Credit	0	(5)
Retargeted Tax Incentives for Film Production Services	0	(5)
Enhancements to Ontario Film and Television Tax Credit	(5)	(7)
Community Small Business Investment Fund Act		
New Incentive for Individual Investors	(3)	(5)
Retail Sales Tax Act		
Extended Rebate for Farmers	(7)	(7)
Expanded Rebate for Persons with Physical Disabilities	0	(1)
Land Transfer Tax Act		
First Time New Home Buyers Refund Extended	(18)	(22)
Education Quality Improvement Act, 1997		
Commercial and Industrial Education Property Tax Cut	(80)	(510)
Making the Tax System Fairer	4	17
Total Revenue Changes	**(1,099)**	**(5,738)**

* Includes credits claimed by unincorporated businesses.

For further information on these Budget initiatives:

English or French enquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776
Ministry of Finance WEB site: http://www.gov.on.ca/FIN/hmpage.html

If you would prefer to write, please direct your enquiry to:

Questions about:	Contact:
Personal income tax, Community small business investment funds program, Education property tax	Taxation Policy Branch Ministry of Finance 5th Floor, Frost Building South 7 Queen's Park Crescent East Toronto ON M7A 1Y7
Corporations tax	Corporations Tax Branch Ministry of Finance P.O. Box 622 33 King Street West Oshawa ON L1H 8H6
Employer health tax	Employer Health Tax Branch Ministry of Finance P.O. Box 641 33 King Street West Oshawa ON L1H 8P5
Land transfer tax	Motor Fuels and Tobacco Tax Branch Ministry of Finance P.O. Box 625 33 King Street West Oshawa ON L1H 8H9
Retail sales tax	Retail Sales Tax Branch Ministry of Finance P.O. Box 623 33 King Street West Oshawa ON L1H 8H7
Changes to make the tax system fairer	Tax Design and Legislation Branch Ministry of Finance 2nd Floor, Frost Building North 95 Grosvenor Street Toronto ON M7A 1Z1

PAPER D

Ontario's Financing Operations

Introduction

The Government's Balanced Budget Plan is an important step in establishing control of the Province's growing debt and public debt interest expense. With debt at $105.0 billion as of March 31, 1998, and 1997-98 public debt interest expense payments of $8.7 billion, cost-effective borrowing and careful debt management are essential.

To ensure that Ontario's debt and public debt interest are managed effectively, the Government has taken steps to:

- reduce borrowing needs;
- ensure cost-effective borrowing; and
- follow prudent debt management practices.

Reducing Borrowing Needs

Reducing the amount of borrowing necessary to meet the Province's financing needs has been effective in managing Ontario's debt and interest payments.

Slowing the Growth in Public Debt Interest

Since 1995, the rate of growth in debt and public debt interest expense has declined rapidly.

Percentage Change	1995-96	1996-97	1997-98
Debt (Net of Liquid Reserves)	8.0%	6.5%	3.2%
Public Debt Interest (PSAAB)	5.3%	1.6%	1.4%

- Lower liquid reserves, as well as improvements and increased efficiencies in financing operations, have contributed to lower borrowing requirements and public debt interest expense.

Reducing Liquid Reserves

Declining deficits have diminished Ontario's need to access capital markets, allowing the average level of liquid reserves (cash and other short-term holdings) to be reduced during the fiscal year. As a result, the Ontario Financing Authority reduced borrowing and saved associated interest costs while meeting cash needs.

Reducing the Average Level of Liquid Reserves

(Saving $78 Million in Public Debt Interest)

- The average level of liquid reserves was reduced by approximately $2.8 billion from 1996-97 to 1997-98, thereby saving $78 million in net interest payments in fiscal 1997-98.

Other Measures to Reduce Borrowing

The Ontario Financing Authority undertook a number of other measures to reduce the amount of borrowing, which in turn lowered public debt interest expense.

Improving Cash Management Across Government, Saving More Than $2 Million per Year

The Ontario Financing Authority made a concerted effort to consolidate surplus funds from agencies across the Government. This consolidation reduced borrowing by more than $200 million, thus saving more than $2 million per year.

A 1997 Budget initiative committed the Ontario Financing Authority to work with other Ministries to minimize liquid reserves and to optimize cash flows by ensuring that revenues are collected and payments made on a timely basis.

This year, efforts will continue to improve the timeliness of cash flows. As part of this process, program managers in the Ontario Government will be required to adopt prudent cash management practices.

Reducing the Line of Credit, Saving $1.5 Million per Year

The Province has in place a syndicated line of credit as a back-up for short-term borrowing. Since 1996-97, the Ontario Financing Authority has reduced the line from U.S.$4 billion to U.S.$1.25 billion and negotiated lower fees, saving $1.5 million annually.

Lowering the Cost of Banking Services, Saving $1.2 Million Annually

In 1997-98, the cost of banking services was reduced by an estimated $1.2 million per year. These savings were made possible by consolidating banking service requirements across the Government and by selecting the Province's lead cash management banks through a well-defined competitive process.

Implementing the Pooled Fund Structure, Saving $0.5 Million in 1997-98

In 1997-98, the Ontario Financing Authority worked with a number of Crown agencies to improve the approach to investing short-term agency funds. As at March 31, 1998, these agencies had approximately $330 million invested in Ontario securities. This pooled approach to investment saved the Province more than $500,000 in 1997-98.

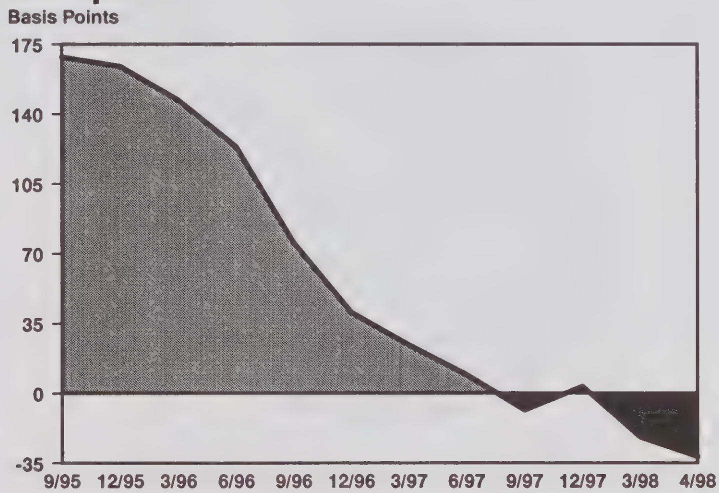
Cost-Effective Borrowing

Just as lowering deficits and liquid reserves reduced the Province's borrowing needs, favourable capital market conditions and improvements to the borrowing program also contributed to public debt interest savings.

Favourable Capital Market Conditions

During 1997-98, the United States and Canada experienced strong economic growth, leading to higher government tax revenues, which in turn contributed to lower deficits and subsequent lower borrowing requirements. This environment, together with low inflation, has resulted in low long-term interest rates, particularly in Canada.

30-Year Canada-U.S. Bond Rate Comparison



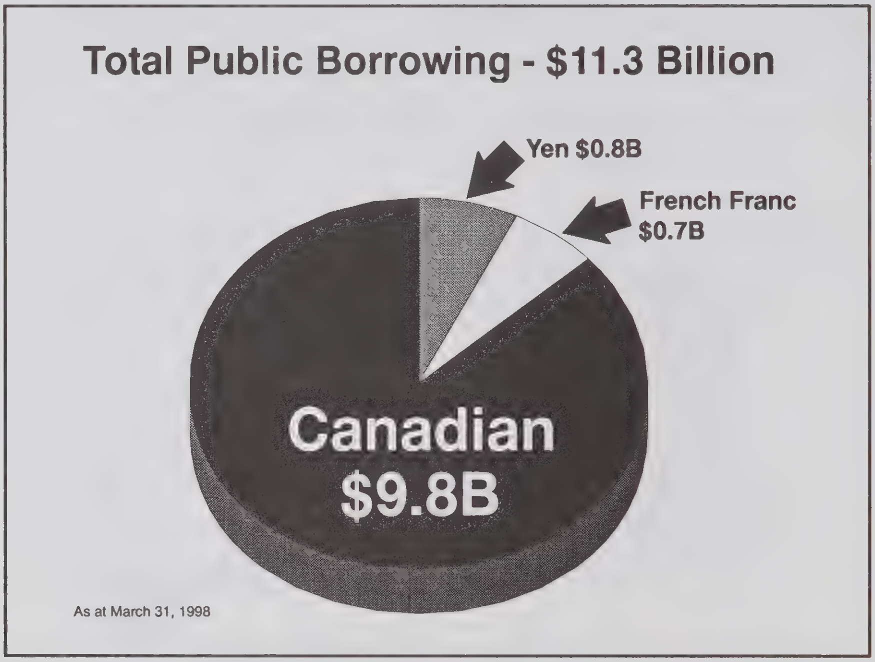
- Long-term interest rates dropped below 6 per cent, to levels not seen since the early 1960s. Since mid-1997, interest rates on 30-year Government of Canada bonds have been lower than corresponding U.S. interest rates on a generally sustained basis.

1997-98 Borrowing Program

In 1997-98, the Province borrowed $11.3 billion to fund the deficit and refinance maturing debt. By the end of 1997-98, the average interest rate on Total Provincial Purpose Debt had declined to 9.0 per cent from 9.1 per cent the year before, reducing public debt interest expense by more than $135 million annually.

Borrowing in Canadian Markets

The Canadian market remained the key source of financing for the Province. In 1997-98, more than 86 per cent of total public borrowing, or $9.8 billion, was raised in Canadian capital markets.



- Of the total borrowed in Canada, $6.0 billion was borrowed in the 30-year term to take advantage of low long-term interest rates. The Province borrowed at rates as low as 6.05 per cent.

- In 1997-98, Ontario residents invested $1.5 billion in Ontario Savings Bonds.

Borrowing in Foreign Markets

The Province also raised $1.5 billion in overseas markets.

- Ontario issued its second successful French Franc bond issue for $715 million.

- Japanese investors purchased five Yen issues, securing $795 million for the Province.

The Ontario Financing Authority saved $12 million in present value terms after converting these issues into Canadian dollars.

Improvements to the Borrowing Program

The Ontario Financing Authority develops debt products that meet investor requirements and reduce borrowing costs. For example, in the last two years, in excess of $6.5 billion was raised by issuing instruments — medium term notes (MTNs), Eurobonds and Japanese issues — targeted to specific investor needs. In total, more than 40 of these instruments were issued in this period, saving more than $126 million in interest payments, in present value terms.

In February 1998, a benchmark bond issue was created as a base to improve the liquidity and marketability of future long-dated MTN issues. The cost of long-dated MTNs issued under this initiative fell by as much as 1.5 basis points.

Over the last two years, the administration of the annual Ontario Savings Bond campaign was streamlined, saving an average of $1.5 million per year.

Prudent Debt Management Policies and Practices

With an emphasis on cost-effectiveness, the Ontario Financing Authority continued its prudent use of a wide range of financial instruments, including options and swaps. This approach resulted in significant public debt interest expense savings in 1997-98.

Debt Management Policies

Current debt management policies require:

- floating-rate debt net of liquid reserves to be no more than 20 per cent of total debt;
- debt exposed to changes in foreign exchange rates to be no more than 5 per cent of total debt; and
- the credit rating of counterparties in foreign exchange and interest rate arrangements to be no less than single A.

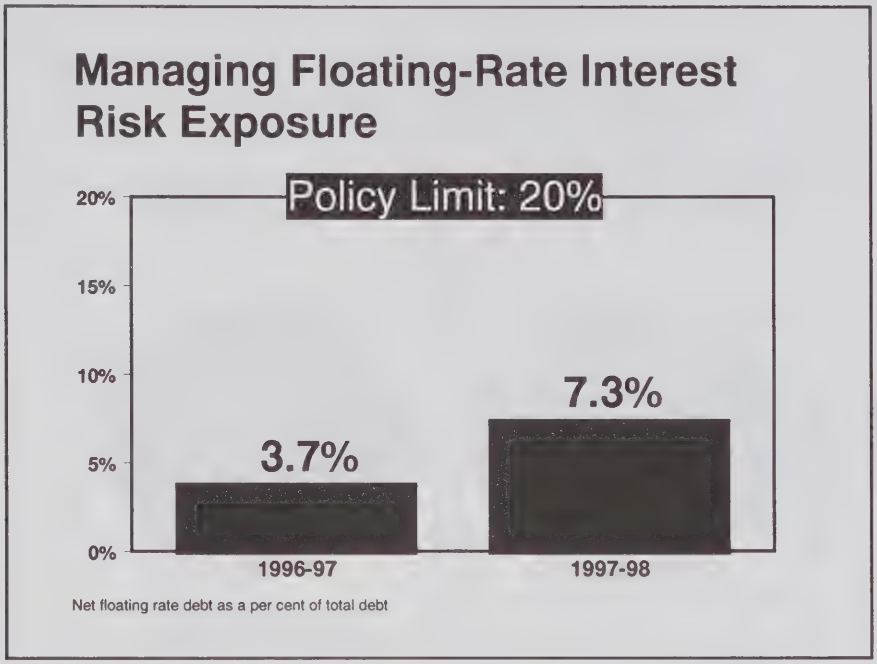
These limits allow the Ontario Financing Authority to balance market opportunities and risks to reduce the cost of debt over the long term.

Compliance with these limits is monitored daily and audited annually. Capital market operations also report daily on the cost-effectiveness of borrowing and the performance of short-term investment activities. Performance of debt, risk management and liquid reserve portfolios are measured against standard industry benchmarks, reviewed periodically and audited annually to ensure prudent debt management practices.

Basing the public debt interest expense projection on cautious assumptions is another important debt management practice to limit the impact of potentially higher-than-expected interest rates on the fiscal plan.

Floating-Rate Interest Risk Exposure

During 1997-98, the Ontario Financing Authority increased the share of Provincial floating-rate debt, as short-term interest rates were lower than long-term rates.

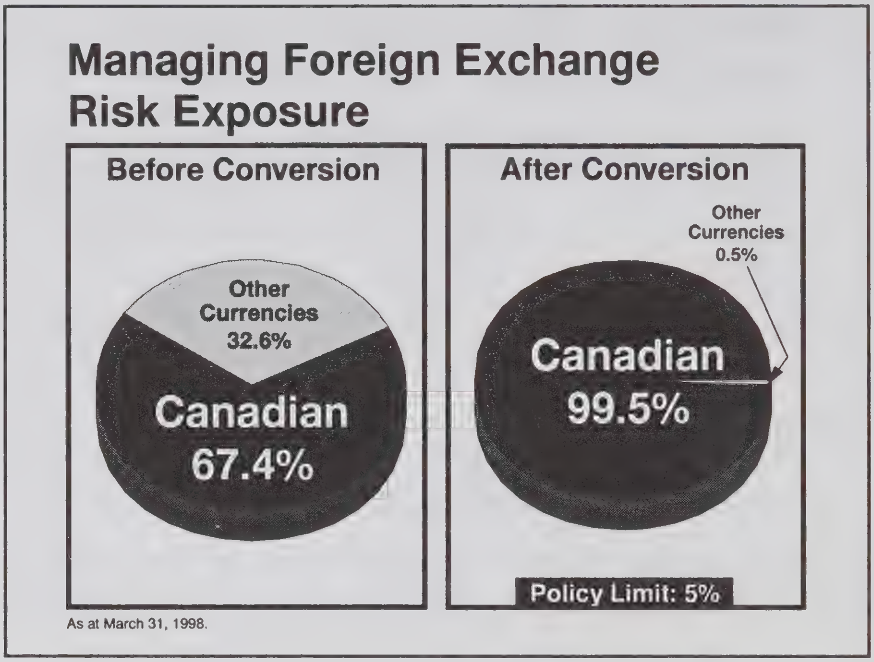


- In 1997-98, average floating-rate debt (net of liquid reserves) increased from 3.7 per cent to about 7.3 per cent, well within the policy limit of 20 per cent. The increase in floating-rate debt reduced public debt interest expense by more than $120 million in 1997-98.

- The estimated floating-rate debt of the federal government and other provincial governments ranged from 4 to 43 per cent of their outstanding debt (as of March 31, 1997).

Foreign Exchange Risk Exposure

The Province borrows in foreign markets when total financing costs are lower than in the Canadian domestic market. Foreign exchange exposure is reduced through converting payments of principal and interest in these foreign currencies for equivalent Canadian dollar payments.



- Almost one-third of Provincial debt has been raised in foreign currencies. However, the actual exposure to changes in foreign exchange rates is less than one per cent of total debt, virtually eliminating the exposure of the fiscal plan to fluctuations in foreign exchange rates.

- The federal government and other provincial governments had estimated foreign exchange exposures ranging from zero to 42 per cent of their outstanding debt (as of March 31, 1997).

Financing Program

1997-98 Review

- For the third consecutive year, the Province's financing program benefitted from an overachievement of the fiscal plan. Total financing requirements were approximately $5.3 billion lower than planned due to a smaller-than-expected deficit and lower cash timing adjustments. This lower financing requirement together with lower interest rates resulted in public debt interest expense savings of $266 million in 1997-98.

- Long-term borrowing increased by about $700 million from the 1997 Budget Plan.

($ Billions)	1996-97 Final	1997-98 Budget Plan	1997-98 Interim	1998-99 Budget Plan
Deficit	6.9	6.6	5.2	**4.2**
Cash Timing Adjustments	(1.6)	2.6	(0.9)	**3.8**
Cash Requirements	5.3	9.2	4.3	**8.0**
Maturities	6.5	5.4	5.8	**5.8**
Borrowing on behalf of agencies	0.7	0.6	(0.2)	**0.3**
Total Financing Requirements	**12.5**	**15.2**	**9.9**	**14.1**
Financed by				
(Increase)/Decrease in Liquid Reserves	5.7	3.0	0.1	**3.0**
Other Sources	0.2	0.1	(0.1)	**(0.1)**
Increase/(Decrease) in Short-term Borrowing	–	1.5	(1.4)	**2.0**
Long-term Borrowing Planned	–	9.9	–	**8.4**
Long-term Borrowing Completed	6.5	0.7	11.3	**0.8**
Total	**12.5**	**15.2**	**9.9**	**14.1**

Cash requirements and maturities are the key determinants of borrowing requirements. Cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

1998-99 Outlook

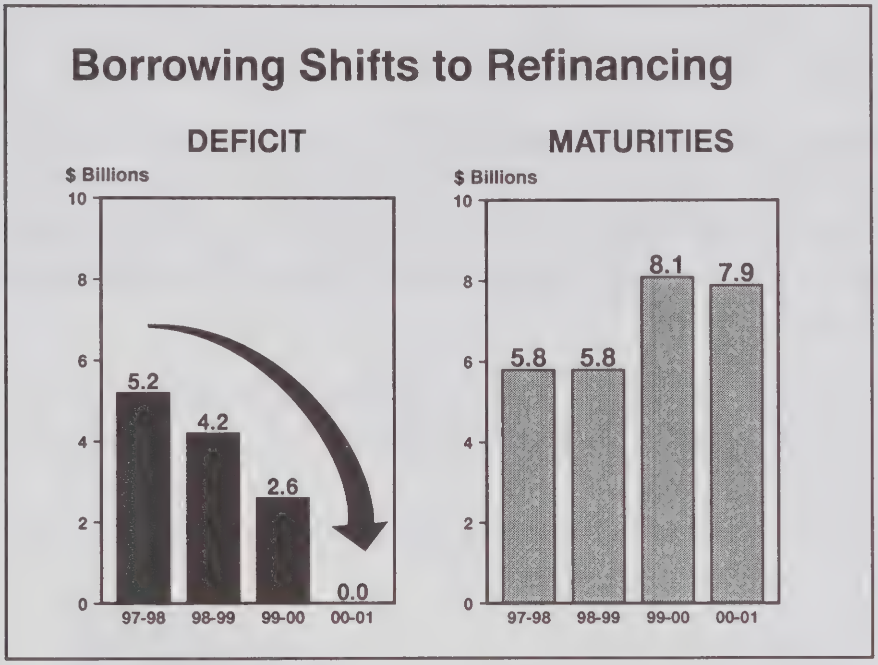
- The Government will reduce Provincial long-term borrowing from $11.3 billion in 1997-98 to $9.2 billion in 1998-99.

- The domestic market will continue to be the main focus of the borrowing program, including the fourth Ontario Savings Bonds campaign in June.

- On behalf of the Province, the Ontario Financing Authority will continue to monitor major capital markets. It will take advantage of opportunities to borrow cost-effectively. At the same time, the Ontario Financing Authority will ensure that prudent financial management policies and practices are followed.

Medium Term Outlook

Cost-effective borrowing and debt management will continue to be important, as borrowing requirements will remain around $9 billion per year on average for the next five years, mostly due to maturing debt.



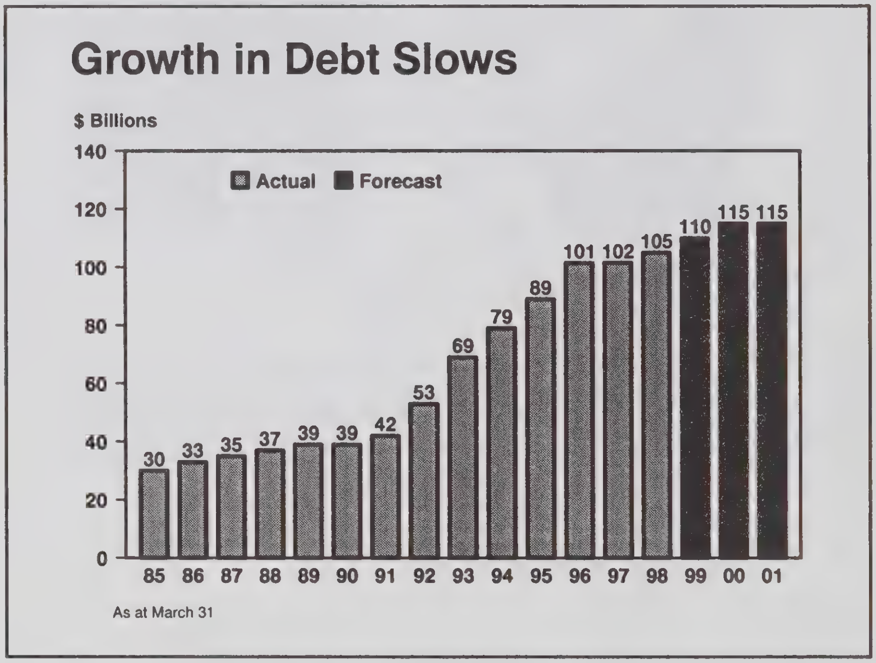
- 1998-99 will mark the second consecutive year that maturing debt will exceed the deficit, meaning that the refinancing of maturing debt is constituting an increasing share of the borrowing program.

Debt Outlook

The Government has minimized debt and public debt interest payments by:

- reducing borrowing needs;
- ensuring cost-effective borrowing; and
- following prudent debt management practices.

With these measures, the Government is able to maximize resources available for priorities, such as deficit reduction, tax cuts and investments in key program areas.



- Total Provincial Purpose Debt continues to grow despite deficit reduction measures, although at a slower rate.
- Given the size of the debt, prudent debt management remains essential to minimize risks to public debt interest expense and the fiscal plan.
- The Province will be in a position to begin paying down its accumulated debt, once it has balanced the budget in 2000-01.

Appendix

Overview

This appendix provides in-depth information on the Province's debt portfolio.

Chart

The chart shows debt outstanding by currency. With $105.0 billion in total debt outstanding, the Canadian dollar remains the Province's core currency ($70.8 billion), followed by the U.S. dollar ($21.3 billion), the Japanese Yen ($5.3 billion) and other currencies ($7.6 billion).

Tables

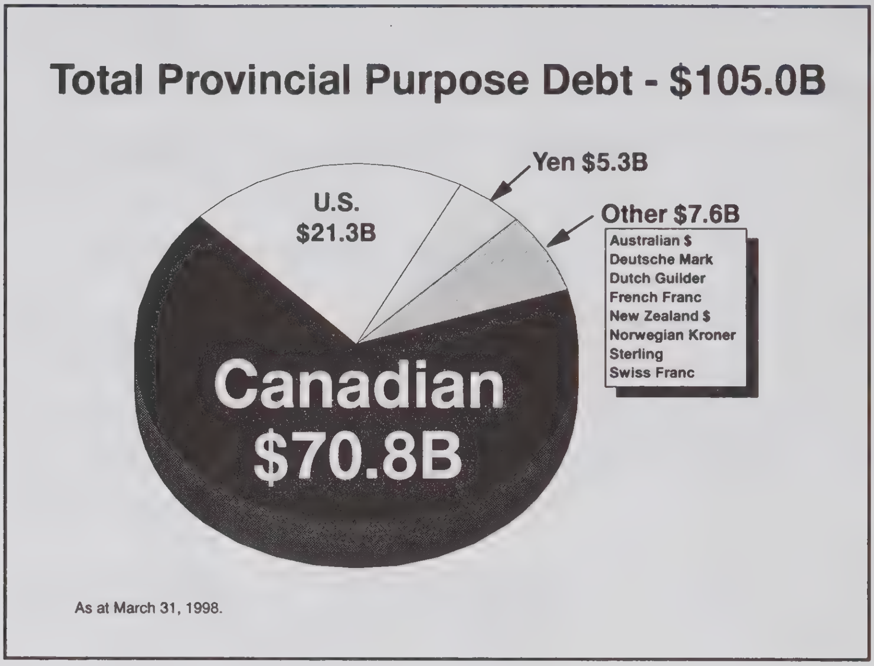
Table 1(A) is a five-year summary of the Province's public and non-public debt outstanding.

Table 1(B) presents the maturity schedule for debt issued by the Province.

Table 1(C) summarizes the financial contracts entered into by the Ontario Financing Authority as part of its prudent practices in managing the Province's debt. These contracts limit the exposure to interest rate and currency fluctuations.

Schedule II displays detailed information, such as date of issue and maturity, interest rates, original and currently outstanding issue amounts, on each of the Province's public and non-public issues.

Chart


Total Provincial Purpose Debt - $105.0B
Yen $5.3B
U.S.
$21.3B
Other $7.6B
Australian $
Deutsche Mark
Dutch Guilder
French Franc
New Zealand $
Norwegian Kroner
Sterling
Swiss Franc
Canadian
$70.8B
As at March 31, 1998.

FINANCIAL TABLES
TABLE I(A)
SUMMARY OF PROVINCIAL PURPOSE DEBT[1]
As at March 31

	1994	1995	1996[3]	1997[3]	Interim 1998[3]
	(in millions)				
Incurred by the Province					
Non-Public Debt					
Minister of Finance of Canada:					
Canada Pension Plan	$13,105	$12,404	$11,620	$10,807	$ 9,956
Other	14	8	4	—	—
	$13,119	$12,412	$11,624	$10,807	$ 9,956
Ontario Teachers' Pension Fund	14,648	14,584	14,386	14,049	13,822
Ontario Municipal Employees Retirement Fund (OMERS)[5]	1,164	1,015	742	722	697
Colleges of Applied Arts and Technology Pension Plan[5]	—	—	91	91	91
Ryerson Retirement Pension Plan	—	16	16	9	9
Canada Mortgage & Housing Corporation	270	264	258	251	244
Public Service Pension Fund	5,939	3,976	3,884	3,790	3,681
Ontario Public Service Employees' Union Pension Fund (OPSEU)	—	1,859	1,816	1,772	1,749
	$35,140	$34,126	$ 32,817	$ 31,491	$ 30,249
Publicly Held Debt					
Debentures and Bonds[2]	$38,225	$49,522	$ 60,888	$ 61,939	$ 68,199
Treasury Bills	2,884	1,921	1,716	2,071	675
U.S. Commercial Paper[2]	465	142	177	—	—
	$41,574	$51,585	$ 62,781	$ 64,010	$ 68,874
Total Debt Incurred by the Province for Provincial Purposes	$76,714	$85,711	$ 95,598	$ 95,501	$ 99,123
Incurred by Government Service Organizations					
Non-Public					
Canada Pension Plan[4]	$ 79	$ 79	$ 1,402	$ 1,402	$ 1,402
Canada Mortgage & Housing Corporation	—	—	1,038	1,021	1,002
Public					
Other	—	—	18	35	18
Collateralized Financing[2]	—	—	430	433	437
Total Debt Incurred by Government Service Organizations for Provincial Purposes	$ 79	$ 79	$ 2,888	$ 2,891	$ 2,859
Total Debt Incurred for Provincial Purposes	$76,793	$85,790	$ 98,486	$ 98,392	$101,982
Other					
Province of Ontario Savings Office	$ 2,059	$ 2,089	$ 2,220	$ 2,135	$ 2,073
Other Liabilities[4]	587	701	690	984	993
Subtotal	$ 2,646	$ 2,790	$ 2,910	$ 3,119	$ 3,066
Total Provincial Purpose Debt[6]	$79,439	$88,580	$101,396	$101,511	$105,048

Source: Ontario Ministry of Finance

(1) Prepared on the basis of modified accrual and consolidation accounting.
(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
(3) Figures for Interim 1997-98 and fiscal 1996-97 and 1995-96 reflect the change in status of Ontario Housing Corporation ("OHC") and GO Transit to Government Service Organizations, which are consolidated on a line-by-line basis. Fiscal 1994-95 and 1993-94 have not been restated and reflect OHC and GO Transit as Government Enterprises, which are consolidated on the modified equity basis. Therefore, comparisons of information from years prior to fiscal 1995-96 with fiscal 1995-96, 1996-97 and Interim 1997-98 may not be meaningful.
(4) Figures for fiscal 1993-94 through Interim1997-98 include the reclassification of $79 million from Other Liabilities to "Canada Pension Plan" debt.
(5) The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
(6) The total Debt incurred for Provincial Purposes does not include debt issued on behalf of Ontario Hydro, which is offset by bonds of Ontario Hydro bearing like terms and conditions to the Ontario obligations.

TABLE I(B)
ONTARIO'S DEBT MATURITY SCHEDULE
Interim 1998[1]

	Debt Incurred for Provincial Purposes			Ontario Hydro Purposes[4]		
Year Ending March 31,	Publicly Held Debt[2]	Non-Public Debt	Total	United States Dollar-Denominated[3]	Canadian Dollar-Denominated	Total Debt Incurred for Provincial Purposes and Ontario Hydro
	(in millions)					
1999	$ 4,794[5]	$ 1,701	$ 6,495	$ 137	$ 0	$ 6,632
2000	6,003	2,128	8,131	0	0	8,131
2001	6,472	1,477	7,949	0	500	8,449
2002	6,111	1,542	7,653	0	500	8,153
2003	8,900	2,473	11,373	0	0	11,373
1999-03 ..	32,280	9,321	41,601	137	1,000	42,738
2004-08 ..	19,256	11,488	30,744	0	508	31,252
2009-13 ..	1,980	10,149	12,129	0	1,240	13,369
2014-18 ..	141	1,279	1,420	0	0	1,420
2019-23 ..	1,851	366	2,217	0	0	2,217
2024-48 ..	13,821	50	13,871	0	0	13,871
	$ 69,329	$ 32,653	$101,982	$ 137	$ 2,748	$104,867

(1) Prepared on the basis of modified accrual and consolidation accounting.

(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(3) Debt of US $97.2 million, translated into Canadian dollar at the prevailing exchange rate in effect at March 31, 1998.

(4) This debt is offset by bonds of Ontario Hydro bearing like terms and conditions to the Ontario obligations.

(5) Includes $675 million in Treasury Bills.

TABLE I(C)
DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents a preliminary maturity schedule of the Province's derivative financial instruments, by type, outstanding at March 31, 1998, based on the notional amounts of the contracts.

The Province has had sizable financing requirements, generally to refinance maturing indebtedness and to fund the annual deficit of the Province. To meet these financing requirements in the most cost-effective manner, the Province has issued a variety of debt instruments in domestic and international markets. To take advantage of favourable interest rates, the Province issues debt instruments that are repayable in numerous currencies other than Canadian dollars. The Province employs prudent risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is well managed. A variety of strategies are used, including the use of derivative financial instruments ("derivatives").

Derivatives are financial contracts, the value of which is derived from underlying assets. The Province uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements, the effect of which is that each party agrees to exchange with another party, cash flows on a notional amount during a specified period in order to offset or effectively convert its existing obligations. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures and options.

DERIVATIVE PORTFOLIO NOTIONAL VALUE
as at March 31, 1998

Maturity in Fiscal Year	1999	2000	2001	2002	2003	6-10 Years	Over 10 Years	Interim 1998 Total	1996-97 Total
					(in millions)				
Swaps:									
Cross Currency . . .	$3,791	$ 5,862	$5,597	$5,862	$ 7,974	$13,127	$1,648	$43,861	$45,500
Interest Rate	1,351	4,112	4,305	3,610	8,357	13,341	400	35,476	37,233
Forward Foreign Exchange Contracts	1,677	0	0	0	0	0	0	1,677	2,496
Forward Rate Agreements	200	0	0	0	0	0	0	200	925
Futures	570	297	0	0	0	0	0	867	1,235
Options	285	0	60	0	0	0	0	345	1,517
	$7,874	$10,271	$9,962	$9,472	$16,331	$26,468	$2,048	$82,426	$88,906

Definitions:

Notional value: represents the volume of outstanding contracts. It does not represent cash flows.

Swap: a legal arrangement, the effect of which is that each of the parties (the counterparties) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Forward foreign exchange contract: an agreement between two parties to set exchange rates in advance.

Forward rate agreement (FRA): an agreement between two parties to set future borrowing/lending rates in advance.

Future: a contract that confers an obligation to buy/sell a commodity with a specified price and amount, on a future date.

Option: a contract that confers a right but not the obligation to buy/sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a fixed future period.

II Schedule of Outstanding Debt Incurred by the Province of Ontario
Interim as at March 31, 1998

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
Debt Incurred for Provincial Purposes						
(A) PAYABLE IN CANADA IN CANADIAN DOLLARS						
NON-PUBLIC DEBT						
To Minister of Finance of Canada						
Canada Pension Plan Investment Fund:						
Year ending March 31						
1999	1979	CPP	9.35 to 10.16	915,916,000	915,916,000	
2000	1980	CPP	9.98 to 12.74	987,943,000	987,943,000	
2001	1981	CPP	12.50 to 13.39	537,872,000	537,872,000	
2002	1982	CPP	13.66 to 16.10	768,736,000	768,736,000	
2003	1983	CPP	12.01 to 16.53	1,235,751,000	1,235,751,000	
2004	1984	CPP	10.92 to 12.14	1,200,847,000	1,200,847,000	
2005	1985	CPP	12.08 to 14.06	1,133,182,000	1,133,182,000	
2006	1986	CPP	10.58 to 12.57	1,213,502,000	1,213,502,000	
2007	1987	CPP	9.36 to 10.17	232,269,000	232,269,000	
2008	1988	CPP	10.79	42,300,000	42,300,000	
2012	1992	CPP	9.81 to 10.04	987,249,000	987,249,000	
2013	1993	CPP	9.17 to 9.45	700,137,000	700,137,000	
					9,955,704,000	(5)
The *Municipal Works Assistance Act:*						
Year ending March 31						
1998-1999	1966-1969	MW	5.625	1,869,862	4,970	(1)(8)
					4,970	
Total to Minister of Finance of Canada					9,955,708,970	

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
To Ontario Teachers' Pension Fund:						
Year ending March 31						
1999	1979-1991	TI	9.51 to 12.73	609,888,869	609,888,869	
2000	1975-1991	TI	8.39 to 13.13	960,288,107	960,288,107	
2001	1981-1991	TI	11.05 to 11.10	717,238,319	717,238,319	
2002	1977-1991	TI	9.54 to 10.11	492,524,321	492,524,321	
2003	1978-1991	TI	9.82 to 10.53	655,570,855	655,570,855	
2004	1982-1984	TI	12.88 to 13.34	900,000,000	900,000,000	
2005	1984-1991	TI	12.60 to 13.27	821,000,000	821,000,000	
2006	1985-1991	TI	11.07 to 14.40	1,070,000,000	1,070,000,000	
2007	1985-1991	TI	10.26 to 13.01	1,185,000,000	1,185,000,000	
2008	1983-1991	TI	10.15 to 15.38	1,945,000,000	1,945,000,000	
2009	1986-1991	TI	10.98 to 11.50	1,465,000,000	1,465,000,000	
2010	1986-1991	TI	10.22 to 11.24	1,236,000,000	1,236,000,000	
2011	1987	TI	10.11 to 10.32	560,000,000	560,000,000	
2012	1988-1991	TI	10.68 to 11.24	580,000,000	580,000,000	
2013	1989-1991	TI	11.06 to 11.31	625,000,000	625,000,000	
					13,822,510,471	(1)
To Ontario Municipal Employees Retirement Fund:						
Year ending March 31						
1999	1996	MER	7.21	31,251,467	31,251,467	
2000	1996	MER	8.19	43,849,567	43,849,567	
2001	1996	MER	9.10	52,494,948	52,494,948	
2002	1996	MER	7.85	67,500,000	67,500,000	
2003	1996	MER	8.02 to 10.28	235,259,824	235,259,824	
2004	1996	MER	9.45	163,695,000	163,695,000	
2007	1996	MER	9.77	102,675,000	102,675,000	
					696,725,806	(1)(38)
To Colleges of Applied Arts & Technology Pension Plan:						
Year ending March 31						
1999	1996	CAAT	7.21	1,848,533	1,848,533	
2000	1996	CAAT	8.19	2,850,433	2,850,433	
2001	1996	CAAT	9.10	5,105,052	5,105,052	
2002	1996	CAAT	7.85	7,500,000	7,500,000	
2003	1996	CAAT	8.02 to 10.28	30,540,176	30,540,176	
2004	1996	CAAT	9.45	24,255,000	24,255,000	
2007	1996	CAAT	9.77	18,625,000	18,625,000	
					90,724,194	(1)(38)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
To Ryerson Retirement Pension Plan:						
Year ending March 31						
1999	1995	RRPF	10.07	455,954	455,954	
2000	1995	RRPF	11.53	494,883	494,883	
2001	1995	RRPF	13.40	586,257	586,257	
2002	1995	RRPF	16.95	732,095	732,095	
2003	1995	RRPF	14.65	926,036	926,036	
2004	1995	RRPF	12.78	1,081,061	1,081,061	
2005	1995	RRPF	13.33	1,229,597	1,229,597	
2006	1995	RRPF	11.16	1,464,199	1,464,199	
2007	1995	RRPF	9.64	1,618,485	1,618,485	
					8,588,567	(1)
To Canada Mortgage and Housing Corporation:						
Year ending March 31						
1999-2003	1971 to 1978	CMHC	5.375	688,415	203,693	
1999-2004	1974 to 1975	CMHC	5.125 to 7.875	1,296,489	493,543	
1999-2005	1971 to 1975	CMHC	5.125 to 8.625	2,754,646	1,200,507	
1999-2006	1973 to 1976	CMHC	5.125 to 10.375	2,200,837	1,235,296	
1999-2007	1974 to 1977	CMHC	5.375 to 10.375	6,049,712	3,683,914	
1999-2010	1970 to1975	CMHC	5.75 to 6.875	4,312,601	2,391,258	
1999-2011	1971 to 1976	CMHC	5.375 to 8.25	5,876,136	3,897,609	
1999-2012	1972	CMHC	6.875 to 8.25	7,281,714	4,936,414	
1999-2013	1973	CMHC	7.25 to 8.25	1,252,053	894,505	
1999-2014	1974	CMHC	6.125 to 8.25	19,734,125	14,296,718	
1999-2015	1975	CMHC	7.50 to 10.375	11,488,523	8,703,149	
1999-2016	1976	CMHC	5.375 to 10.75	22,775,312	18,117,944	
1999-2017	1977	CMHC	7.625 to 10.75	15,797,368	13,170,286	
1999-2018	1977 to 1978	CMHC	7.625 to 13.00	38,133,367	33,140,020	
1999-2019	1977 to 1980	CMHC	7.625 to 15.25	41,958,001	37,257,906	
1999-2020	1978 to 1980	CMHC	7.625 to 15.75	65,976,661	59,235,918	
1999-2021	1981	CMHC	9.50 to 15.75	30,946,135	28,230,105	
1999-2022	1982	CMHC	9.75 to 15.75	1,177,064	1,101,151	
					232,189,936	(7)
To Canada Mortgage and Housing Corporation (CMHC) Section 40 Debt:						
1999-2002	1982	CMHC	7.099	36,967,243	11,965,628	
					11,965,628	(7)
Total to Canada Mortgage and Housing Corporation					244,155,564	(2)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
To Public Service Pension Fund:						
Year ending March 31						
1999	1997	OPB	8.06 to 14.71	90,958,259	45,479,132	
2000	1997	OPB	8.39 to 10.17	63,070,663	63,070,663	
2001	1997	OPB	10.04 to 11.61	75,635,207	75,635,207	
2002	1997	OPB	10.10 to 13.48	101,778,265	101,778,265	
2003	1997	OPB	9.50 to 17.11	128,554,996	128,554,996	
2004	1997	OPB	9.50 to 14.81	134,530,331	134,530,331	
2005	1997	OPB	9.82 to 12.89	160,431,479	160,431,479	
2006	1997	OPB	11.05 to 13.48	172,212,515	172,212,515	
2007	1997	OPB	11.16 to 13.47	188,766,466	188,766,466	
2008	1997	OPB	15.38 to 15.51	218,362,903	218,362,903	
2009	1997	OPB	12.79 to 12.89	264,512,886	264,512,886	
2010	1997	OPB	12.88 to 13.02	273,669,452	273,669,452	
2011	1997	OPB	13.33 to 13.48	282,994,558	282,994,558	
2012	1997	OPB	11.55 to 11.67	336,229,108	336,229,108	
2013	1997	OPB	10.38 to 10.40	374,479,804	374,479,804	
2014	1997	OPB	11.10 to 11.19	409,677,031	409,677,031	
2015	1997	OPB	11.19 to 11.31	450,938,707	450,938,707	
					3,681,323,503	(1)(23)(65)
To Public Service Employees' Union Pension Fund:						
Year ending March 31						
1999	1997	OPPT	8.06 to 14.71	43,210,140	21,605,070	
2000	1997	OPPT	8.39 to 10.17	29,962,010	29,962,010	
2001	1997	OPPT	10.04 to 11.61	35,930,854	35,930,854	
2002	1997	OPPT	10.10 to 13.48	48,350,235	48,350,235	
2003	1997	OPPT	9.50 to 17.11	61,070,644	61,070,644	
2004	1997	OPPT	9.50 to 14.81	63,909,254	63,909,254	
2005	1997	OPPT	9.82 to 12.89	76,213,714	76,213,714	
2006	1997	OPPT	11.05 to 13.48	81,810,350	81,810,350	
2007	1997	OPPT	11.16 to 13.47	89,674,381	89,674,381	
2008	1997	OPPT	15.38 to 15.51	103,734,305	103,734,305	
2009	1997	OPPT	12.79 to 12.89	125,658,067	125,658,067	
2010	1997	OPPT	12.88 to 13.02	130,007,936	130,007,936	
2011	1997	OPPT	13.33 to 13.48	134,437,870	134,437,870	
2012	1997	OPPT	11.55 to 11.67	159,727,189	159,727,189	
2013	1997	OPPT	10.38 to 10.40	177,898,359	177,898,359	
2014	1997	OPPT	11.10 to 11.19	194,618,964	194,618,964	
2015	1997	OPPT	11.19 to 11.31	214,220,513	214,220,513	
					1,748,829,715	(1)(23)(65)
TOTAL NON-PUBLIC DEBT					30,248,566,790	

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
(A) PAYABLE IN CANADA IN CANADIAN DOLLARS						
PUBLICLY HELD DEBT						
Aug.27, 1998	Aug.27, 1991	GU	10.20	500,000,000	500,000,000	(1)
Jan.10, 2001	Jan.10, 1991	GH	10.875	1,050,000,000	1,050,000,000	(1)
Dec.12, 2001	Aug.12, 1991	GS	10.50	600,000,000	600,000,000	(1)
Mar.11, 2003	Mar.11, 1993	HK	8.00	1,500,000,000	1,500,000,000	(1)
Apr.22, 2003	Dec.29, 1992	HG	8.75	750,000,000	750,000,000	(1)
Dec.8, 2003	July 20, 1993	HM	7.75	1,250,000,000	1,250,000,000	(1)
Sept.15, 2004	June 21, 1994	HU	9.00	1,450,000,000	1,450,000,000	(1)
Oct.12, 2005	Oct.12, 1995	JR	8.95	65,000,000	65,000,000	(45)
Oct.27, 2005	Oct.27, 1995	JS	9.00	55,000,000	55,000,000	(44)
Dec.1, 2005	Sept.13, 1995	JP	8.25	1,000,000,000	1,000,000,000	(1)
Jan.19, 2006	Jan.19, 1996	JV	7.50	1,250,000,000	1,250,000,000	(1)
Feb.20, 2006	Feb.20, 1996	JZ	0.0-17.25	107,000,000	107,000,000	(1)(40)
July 24, 2006	July 24, 1996	KE	7.75	600,000,000	600,000,000	(1)
Jan.12, 2007	Jan.12, 1995	JF	9.50	200,000,000	200,000,000	(1)(21)
Feb.3, 2007	June 6, 1997	KZ	7.50	50,000,000	50,000,000	(51)
June 27, 2007	June 27, 1997	LB	7.20	100,000,000	100,000,000	(68)
Sept.12, 2007	Sept. 12, 1997	LE	6.125	1,000,000,000	1,000,000,000	(1)
Dec.10, 2007	Dec. 10, 1997	LH	5.875	125,000,000	125,000,000	(1)(81)
Jul.15, 2008	Feb. 6, 1998	LM	5.50	75,000,000	75,000,000	(70)
Oct.17, 2008	Oct. 17, 1996	KH	6.75-9.375	65,000,000	65,000,000	(3)
Sept.4, 2009	Sept. 4, 1997	LD	6.00-7.625	75,000,000	75,000,000	(71)
Oct. 10, 2009	Oct.10, 1997	LG	5.875-7.00	50,000,000	50,000,000	(72)
March 2, 2010	March 2, 1998	LP	6.15	60,000,000	60,000,000	(82)
Feb. 18, 2013	Feb. 18, 1993	HJ	9.24	250,000,000	250,000,000	(1)
July 13, 2022	July 13, 1992	HC	9.50	1,850,000,000	1,850,000,000	(1)
Sept. 8, 2023	Sept. 8, 1993	HP	8.10	1,350,000,000	1,350,000,000	(1)
Feb. 7, 2024	Feb. 7, 1994	HS	7.50	1,250,000,000	1,250,000,000	(1)
June 2, 2025	Dec. 20, 1994	JE	9.50	500,000,000	500,000,000	(1)
Dec. 2, 2025	Oct. 5, 1995	JQ	8.50	1,000,000,000	1,000,000,000	(1)
Feb. 6, 2026	Feb. 6, 1996	JY	8.00	50,000,000	50,000,000	(1)
June 2, 2026	Dec. 21, 1995	JU	8.00	1,000,000,000	1,000,000,000	(1)
Dec.2, 2026	Dec. 2, 1996	KL	4.35-7.04	162,000,000	162,000,000	(48)
Dec.2, 2026	Feb. 13, 1997	KR	8.00	225,000,000	225,000,000	(1)(49)
Dec.2, 2026	Sept. 26, 1997	LF	8.00	100,000,000	100,000,000	(73)
Feb. 3, 2027	Aug. 3, 1997	KN	7.50	300,000,000	130,350,000	(74)
Feb. 3, 2027	Aug. 3, 1997	KT	6.95	200,000,000	50,975,000	(75)
Feb. 3, 2027	Apr. 7, 1997	KY	7.50	68,000,000	68,000,000	(50)
Feb. 4, 2027	Feb. 4, 1998	KQ	7.375	125,000,000	125,000,000	(76)
June 2, 2027	Oct. 17, 1996	KJ	7.60	4,000,000,000	4,000,000,000	(1)(77)
Aug.25, 2028	Feb. 25, 1998	LQ	6.25	500,000,000	500,000,000	
Mar.8, 2029	Jan.8, 1998	LK	6.50	2,000,000,000	2,000,000,000	(1)
Jan.13, 2031	Sept.8, 1995	JN	9.50	125,000,000	125,000,000	(1)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
(A) PAYABLE IN CANADA IN CANADIAN DOLLARS (CONT'D)						
PUBLICLY HELD DEBT						
Nov.3, 2034	Nov.3, 1994	HY	9.75	280,000,000	280,000,000	(1)
Jan.10, 1995 to	Nov.30, 1994	HZ	9.4688	189,616,626	144,875,792	(1)(24)
Jan.10,2035	"	JA	9.4688	24,766,559	24,766,559	(1)(24)
"	"	JB	9.4688	8,482,324	8,482,324	(1)(24)
"	"	JC	9.4688	4,764,354	4,764,354	(1)(24)
"	"	JD	9.4688	3,171,134	3,171,134	(1)(24)
Feb.8, 2035	Feb.8, 1995	JJ	9.875	73,000,000	73,000,000	(19)
June 20, 2036	June 20, 1996	KC	8.25	211,000,000	211,000,000	(1)
June 20, 2038	Sept.16, 1996	KG	8.10	120,000,000	120,000,000	(1)
Jan.10, 2045	May 25, 1995	JL	8.39	35,531,176	35,531,176	(1)(41)
Mar.1, 2045	Mar. 1, 1995	JK	9.50	150,000,000	150,000,000	(20)
					27,768,916,339	
LESS: REPURCHASED BY THE PROVINCE						
Feb.3, 2027	Aug.3, 1997	KN	7.50	23,500,000	(23,500,000)	
SUBTOTAL: REPAYABLE IN CANADA IN CANADIAN DOLLARS					27,745,416,339	
ONTARIO SAVINGS BONDS						
Mar.1, 2000	Mar.1, 1995	Annual	Variable	789,297,500	683,694,700	(29)
Mar.1, 2000	Mar.1, 1995	Compound	Variable	817,902,500	643,661,700	(29)
June 21, 2000	June 21, 1997	Annual	Fixed	281,498,800	283,120,500	(30)
June 21, 2000	June 21, 1997	Compound	Fixed	168,756,600	166,767,200	(30)
June 21, 2001	June 21, 1996	Annual	Step-Up	279,338,000	277,800,700	(62)(63)
June 21, 2001	June 21, 1996	Compound	Step-Up	337,518,000	315,952,000	(62)(63)
June 21, 2001	June 21, 1996	Annual	Variable	219,990,000	83,097,900	(62)(64)
June 21, 2001	June 21, 1996	Compound	Variable	194,579,100	79,874,900	(62)(64)
June 21, 2004	June 21, 1997	Annual	Step-Up	447,763,300	450,501,600	(62)(66)
June 21, 2004	June 21, 1997	Compound	Step-Up	451,525,200	417,715,600	(62)(66)
June 21, 2004	June 21, 1997	Annual	Variable	107,533,500	65,544,300	(62)(67)
June 21, 2004	June 21, 1997	Compound	Variable	80,484,400	52,881,800	(62)(67)
					3,520,612,900	(1)
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS					31,266,029,239*	

*Excludes Ontario Treasury Bills of $675,000,000. See page 30.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
(B) PAYABLE IN EUROPE IN CANADIAN DOLLARS						
Apr.19, 1998	Apr.19, 1991	GP	10.25	500,000,000	500,000,000	
July 15, 1998	July 15, 1991	GR	10.625	500,000,000	500,000,000	
July 22, 1999	July 22, 1996	EMTN20	6.25	100,000,000	100,000,000	
Apr.5, 2001	Feb.22, 1996	JW	6.23	510,125,000	510,125,000	(42)
Oct.29, 2001	Oct.29, 1991	GX	9.75	750,000,000	750,000,000	
Sept.27, 2005	Sept.27, 1993	HQ	7.25	500,000,000	500,000,000	
July 13, 2034	July 13, 1994	EMTN5	9.40	300,000,000	300,000,000	
TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS					3,160,125,000	(1)
(C) PAYABLE IN CANADA IN U.S. DOLLARS						
Aug.17, 1999	Feb.17, 1994	HT	Floating	2,000,000,000	2,000,000,000	(34)
Jan.27, 2003	Jan.27, 1993	HH	7.375	3,000,000,000	3,000,000,000	
June 22, 2004	June 22, 1994	HV	7.625	1,000,000,000	1,000,000,000	
April 24, 2005	April 24, 1995	DMTN1	Floating	100,000,000	100,000,000	(35)
May 1, 2005	May 1, 1995	DMTN2	Floating	100,000,000	100,000,000	(35)
May 9, 2005	May 9, 1995	DMTN3	Floating	100,000,000	100,000,000	(35)
May 16, 2005	May 16, 1995	DMTN4	Floating	100,000,000	100,000,000	(35)
Aug.4, 2005	Aug.4, 1995	JM	7.00	1,000,000,000	1,000,000,000	
TOTAL PAYABLE IN CANADA IN U.S. DOLLARS					7,400,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.32992					9,841,420,000	(9)
(D) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS						
June 28, 2000	June 28, 1993	HL	6.125	2,000,000,000	2,000,000,000	
Oct. 17, 2001	Oct. 17, 1991	GY	8.00	750,000,000	750,000,000	
June 4, 2002	June 4, 1992	HB	7.75	2,000,000,000	2,000,000,000	
Feb. 21, 2006	Feb. 21, 1996	KA	6.00	1,500,000,000	1,500,000,000	
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS					6,250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.27540					7,971,249,995	(10)
(E) PAYABLE IN JAPAN IN U.S. DOLLARS						
July 17, 2001	July 17, 1997	LC	3.25	285,714,000	285,714,000	(78)
TOTAL PAYABLE IN JAPAN IN U.S. DOLLARS					285,714,000	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.25980					359,942,263	(85)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
(F) PAYABLE IN EUROPE IN U.S. DOLLARS						
Aug.27, 1998	Aug.27, 1993	EMTN1	5.125	255,000,000	241,800,000	(1)(43)
Jan. 27, 1999	Jan. 27, 1992	HA	7.00	1,000,000,000	1,000,000,000	(1)
Nov. 18, 1999	Nov. 18, 1996	EMTN27	6.00	60,000,000	60,000,000	(1)
Dec. 17, 1999	Dec. 17, 1996	EMTN30	6.00	44,648,800	44,648,800	(1)(25)
Jan. 27, 2000	Jan. 30, 1997	EMTN32	5.60	70,000,000	70,000,000	(1)
Nov. 7, 2000	Nov. 7, 1995	EMTN18	5.75	200,000,000	200,000,000	(1)
Feb. 28, 2001	Feb. 28, 1991	GL	8.50	600,000,000	600,000,000	(1)
Jan. 10, 2002	Jan. 10, 1997	EMTN31	Floating	50,000,000	50,000,000	(26)
TOTAL PAYABLE IN EUROPE IN U.S. DOLLARS					2,266,448,800	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.19801					2,715,218,278	(11)
(G) PAYABLE IN EUROPE IN POUNDS STERLING						
Sept. 15, 2000	Sept. 15, 1993	HN	6.875	255,000,000	255,000,000	
Feb. 14, 2001	Feb. 14, 1991	GK	11.125	100,000,000	100,000,000	
July 30, 2002	July 30, 1992	HD	9.375	200,000,000	200,000,000	
TOTAL PAYABLE IN EUROPE IN POUNDS STERLING					555,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $2.11712					1,175,000,000	(12)
(H) PAYABLE IN EUROPE IN SWISS FRANCS						
June 29, 2001	Mar. 29, 1996	KB	4.00	250,000,000	250,000,000	
Jan. 27, 2003	Jan. 27, 1993	HF	6.25	400,000,000	400,000,000	
TOTAL PAYABLE IN EUROPE IN SWISS FRANCS					650,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.10691					719,489,141	(13)
(I) PAYABLE IN JAPAN IN JAPANESE YEN						
Jan.28, 2003	Jan.28, 1993	YL	5.50	10,000,000,000	10,000,000,000	(1)
Mar.24, 2003	Mar.22, 1993	YL	4.80	7,000,000,000	7,000,000,000	(1)
Aug.25, 2003	Aug.25, 1993	YL	Floating	10,000,000,000	10,000,000,000	(1)(4)
Sept.22, 2003	Sept.22, 1993	YL	5.20	10,000,000,000	10,000,000,000	(1)
July 6, 2004	July 6, 1994	YL	4.40	10,000,000,000	10,000,000,000	(1)
July 21, 2004	July 21, 1994	YL	4.53	10,000,000,000	10,000,000,000	(1)
July 28, 2004	July 27, 1994	YL	4.55	7,000,000,000	7,000,000,000	(22)
Sept. 8, 2004	Sept. 7, 1994	YL	4.71	7,000,000,000	7,000,000,000	(1)
Oct.25, 2004	Oct.25, 1994	YL	5.00	10,000,000,000	10,000,000,000	(1)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
		(I) PAYABLE IN JAPAN IN JAPANESE YEN (CONT'D)				
Dec.20, 2004	Dec.20, 1994	YL	4.80	5,000,000,000	5,000,000,000	(1)
Aug.31, 2005	Aug.31, 1995	YL	3.10	25,000,000,000	25,000,000,000	(1)
Mar.16, 2007	Mar.18, 1997	KU	3.10	5,000,000,000	5,000,000,000	(1)(54)
Mar.16, 2007	Mar.18, 1997	KV	3.25	15,000,000,000	15,000,000,000	(1)(55)
July 18, 2007	July 18, 1997	YL	2.615	10,000,000,000	10,000,000,000	
TOTAL PAYABLE IN JAPAN IN JAPANESE YEN					141,000,000,000	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $0.01282					1,807,700,786	(14)
		(J) PAYABLE IN EUROPE IN JAPANESE YEN				
Jan.28, 1999	Jan.28, 1994	EMTN002	Floating	10,000,000,000	10,000,000,000	(27)
May 27, 1999	May 27, 1994	EMTN003	Floating	10,000,000,000	10,000,000,000	(31)
Sept.20, 1999	Sept.20, 1994	EMTN010	4.24	10,000,000,000	10,000,000,000	
Sept.21, 1999	Sept.26, 1994	EMTN011	4.43	10,000,000,000	10,000,000,000	
Nov.18, 1999	Nov.18, 1996	EMTN028	5.15	10,000,000,000	10,000,000,000	
Nov.29, 1999	Nov.29, 1994	EMTN013	4.50	2,000,000,000	2,000,000,000	
Jan. 25, 2000	Jan. 30, 1995	EMTN014	Floating	10,000,000,000	10,000,000,000	(28)
July 5, 2000	July 5, 1996	EMTN019	2.05	5,000,000,000	5,000,000,000	
Sept.19, 2000	Sept.19, 1996	EMTN023	Floating	5,000,000,000	5,000,000,000	(56)
Sept.26, 2000	Sept.26, 1996	EMTN024	Floating	5,000,000,000	5,000,000,000	(56)
June 20, 2001	July 11, 1994	HW	4.40	100,000,000,000	100,000,000,000	
July 12, 2001	July 12, 1994	EMTN006	3.90	5,000,000,000	5,000,000,000	(32)
Nov.10, 2001	Nov.10, 1994	EMTN012	4.75	3,000,000,000	3,000,000,000	
Mar.15, 2005	Mar.15, 1995	EMTN015	6.00	2,000,000,000	2,000,000,000	(33)
Sept.8, 2005	Mar.23, 1998	EMTN037	6.21	10,000,000,000	10,000,000,000	
Aug.29, 2006	Aug.29, 1996	EMTN021	4.28	10,000,000,000	10,000,000,000	(57)
Mar.26, 2007	Apr.3, 1997	EMTN033	3.20	10,000,000,000	10,000,000,000	(47)
June 13, 2007	June 13, 1997	EMTN034	3.58	10,000,000,000	10,000,000,000	(79)
Feb.25, 2008	Feb.25, 1998	EMTN036	2.60	7,100,000,000	7,100,000,000	(80)
Sept.18, 2015	Sept.18, 1995	EMTN017	5.65	10,000,000,000	10,000,000,000	(36)
TOTAL PAYABLE IN EUROPE IN JAPANESE YEN					244,100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $0.01414					3,450,520,063	(15)
		(K) PAYABLE IN EUROPE IN DEUTSCHE MARKS				
Jan.27, 2000	Jan.27, 1995	JH	Floating	500,000,000	500,000,000	(46)
Feb.15, 2001	Feb.15, 1996	JX	5.00	500,000,000	500,000,000	
Jan.13, 2004	Jan.13, 1994	HR	6.25	1,500,000,000	1,500,000,000	
TOTAL PAYABLE IN EUROPE IN DEUTSCHE MARKS					2,500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $0.89250					2,231,254,639	(16)
		(L) PAYABLE IN EUROPE IN NETHERLANDS GUILDERS				
Sept.27, 2004	Sept.27, 1994	HX	7.75	500,000,000	500,000,000	
TOTAL PAYABLE IN EUROPE IN NETHERLANDS GUILDERS					500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $0.77542					387,710,000	(17)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
(M) PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS						
Nov.9, 1998	Nov.9, 1995	JT	5.00	600,000,000	600,000,000	
Nov.18, 1999	Nov. 18, 1996	EMTN026	5.72	79,293,060	79,293,060	(58)
Oct.15, 2001	Oct.15, 1996	EMTN025	5.00	125,000,000	125,000,000	
TOTAL PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS					804,293,060	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.95643					769,247,496	(18)
(N) PAYABLE IN JAPAN IN AUSTRALIAN DOLLARS						
Nov.13, 1998	Nov.13, 1996	KK	5.20	¥30,000,000,000	333,333,000	(59)
Aug. 26, 1999	Aug.29, 1996	KF	6.00	¥25,000,000,000	296,271,500	(60)
TOTAL PAYABLE IN JAPAN IN AUSTRALIAN DOLLARS					629,604,500	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $1.07205					674,966,390	(52)
(O) PAYABLE IN EUROPE IN FRENCH FRANCS						
July 29, 2008	July 29, 1996	KD	6.875	3,000,000,000	3,000,000,000	
July 21, 2009	July 21, 1997	EMTN035	5.875	3,000,000,000	3,000,000,000	
TOTAL PAYABLE IN EUROPE IN FRENCH FRANCS					6,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.25158					1,509,459,933	(53)
(P) PAYABLE IN EUROPE IN NORWEGIAN KRONER						
Dec.29, 2004	Sept.12, 1996	EMTN022	7.00	300,000,000	300,000,000	
TOTAL PAYABLE IN EUROPE IN NORWEGIAN KRONER					300,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.21235					63,704,048	(61)
(Q) PAYABLE IN EUROPE IN NEW ZEALAND DOLLARS						
Nov.24, 1998	Nov.20, 1996	EMTN029	7.15	100,000,000	100,000,000	
TOTAL PAYABLE IN EUROPE IN NEW ZEALAND DOLLARS					100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.95632					95,631,900	(69)
TOTAL PUBLICLY HELD DEBENTURES AND BONDS					68,198,669,171	
TREASURY BILLS					675,000,000	(84)
TOTAL PUBLICLY HELD DEBT INCURRED BY PROVINCE FOR PROVINCIAL PURPOSES					68,873,669,171	
TOTAL DEBT INCURRED BY PROVINCE FOR PROVINCIAL PURPOSES					99,122,235,961	

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	

Debt Incurred by Government Service Organizations

(A) PAYABLE IN CANADA IN CANADIAN DOLLARS

NON-PUBLIC DEBT

To Minister of Finance of Canada

Canada Pension Plan Investment Fund:

Year ending March 31

2009	1989	CPP	9.15 to 10.31	310,439,000	310,439,000	
2010	1990	CPP	9.78 to 11.33	925,157,000	925,157,000	
2011	1991	CPP	9.81 to 10.04	91,630,000	91,630,000	
2012	1992	CPP	9.00 to 9.45	75,135,000	75,135,000	
					1,402,361,000	(5)

To Canada Mortgage and Housing Corporation:

Year ending March 31

1999	N/A	CMHC	5.375		35,187	
2003	N/A	CMHC	5.125		14,973	
2004	N/A	CMHC	5.2068		53,365	
2005	N/A	CMHC	5.125		39,697	
2006	N/A	CMHC	4.25		99,396	
2007	N/A	CMHC	4.6739		409,316	
2008	N/A	CMHC	5.875		289,676	
2009	N/A	CMHC	5.375		224,839	
2010	N/A	CMHC	6.4598		1,067,754	
2011	N/A	CMHC	6.4159		9,325,354	
2012	N/A	CMHC	5.2994		472,590	
2013	N/A	CMHC	5.375		6,860,615	
2014	N/A	CMHC	5.6206		20,339,266	
2015	N/A	CMHC	5.822		18,392,922	
2016	N/A	CMHC	6.1388		49,075,389	
2017	N/A	CMHC	6.2491		75,223,275	
2018	N/A	CMHC	7.1327		60,859,807	
2019	N/A	CMHC	5.875 to 7.6159		64,754,946	
2020	N/A	CMHC	5.75 to 7.85		214,648,130	
2021	N/A	CMHC	6.875 to 7.5596		107,448,282	
2022	N/A	CMHC	7.74 to 8.25		103,997,054	
2023	N/A	CMHC	7.25 to 8.625		86,502,579	
2024	N/A	CMHC	7.50 to 7.75		72,996,417	
2025	N/A	CMHC	7.74		57,092,756	
2026	N/A	CMHC	7.74		23,866,777	
2027	N/A	CMHC	7.74		24,195,726	
2028	N/A	CMHC	7.74		3,656,805	
					1,001,942,893	(7)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
		(A) PAYABLE IN CANADA IN CANADIAN DOLLARS				
PUBLIC DEBT						
1999 to 2002	N/A	Various Mortgages	Various		17,869,560	
		(B) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS				
PUBLIC DEBT						
July 1, 2006	Mar.31, 1994	Collateralized financing	7.261 to 7.395	311,866,966	316,694,732	
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS					316,694,732	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.38108					437,382,118	
TOTAL DEBT ISSUED BY GOVERNMENT SERVICE ORGANIZATIONS FOR PROVINCIAL PURPOSES					2,859,555,571	
TOTAL DEBT INCURRED FOR PROVINCIAL PURPOSES					**101,981,791,532**	(83)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
			Debt Incurred for Ontario Hydro			
			(A) PAYABLE IN CANADA IN CANADIAN DOLLARS			
NON-PUBLIC DEBT						
	Canada Pension Plan Investment Fund					
2001	1981	CPP	11.61 to 13.46	500,000,000	500,000,000	
2002	1982	CPP	14.81 to 17.51	500,000,000	500,000,000	
2007	1987	CPP	9.64	119,000,000	119,000,000	
2008	1988	CPP	9.13 to 9.72	302,278,000	302,278,000	
2009	1989	CPP	9.62 to 10.31	675,756,000	675,756,000	
2010	1990	CPP	9.61 to 10.31	650,712,000	650,712,000	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS					2,747,746,000	(5)
			(B) PAYABLE IN NEW YORK IN UNITED STATES DOLLARS			
PUBLICLY HELD DEBT						
Apr.25, 2013	Apr.25, 1983	GD	11.75	100,000,000	97,215,000	
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS					97,215,000	(39)
CANADIAN DOLLAR EQUIVALENT AT MARCH 31, 1998 EXCHANGE RATE OF $1.4166					137,714,769	
TOTAL DEBT INCURRED FOR ONTARIO HYDRO (NOT INCLUDED IN TABLE I(A) SUMMARY OF PROVINCIAL PURPOSE DEBT)					2,885,460,769	
TOTAL DEBT INCURRED FOR PROVINCIAL PURPOSES AND ONTARIO HYDRO					104,867,252,301	

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

References:

1. Non-callable.
2. Liability to Canada Mortgage and Housing Corporation assumed by the Ministry of Finance upon the dissolution of Ontario Land Corporation.
3. Callable, in whole but not in part, on October 17 in each year from 1999 to 2007 at par. Interest payable is 6.75% for the first 4 years, 7.25% in years five and six, 8% in year seven, 8.25% in year eight, 8.75% in year nine, 9% in year ten, 9.25% in year eleven, and 9.375% in year twelve.
4. Interest payable is 6 month Yen LIBOR.
5. Securities sold to the Canada Pension Plan Investment Fund are payable 20 years after their respective dates of issue, are not negotiable and not transferable or assignable but are redeemable in whole or in part before maturity at the option of the Minister of Finance of Canada, on six months' prior notice, when the Minister deems it necessary in order to meet the requirements of the Canada Pension Plan. In the case of redemption before maturity, the Ontario Securities are to be redeemed in the order in which they were issued and the amount of Ontario Securities to be redeemed at any time shall be proportionate to the amount of all securities then held to the credit of the said fund represented by Ontario Securities.
6. Callable 15-25 years after date of issue at various declining premiums and thereafter at par.
7. The terms of these debentures require that equal payments be made each year until their maturity. Each payment consists of blended principal and interest.
8. The terms of these debentures require that equal payments be made each year for a period, after which, the payments decline and remain constant for another period. The decline in payments may happen more than once during the term of the debenture. Each payment consists of blended principal and interest.
9. The Province entered into currency exchange agreements which effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.32992. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.60% and 8.19% on $7,141.5 million and USD 450 million respectively, and floating Canadian BA rate on $2,700 million; offset in part by the receipt of floating U.S LIBOR rate on USD 450 million.
10. The Province entered into currency exchange agreements which effectively converted all but the USD 225 million of these U.S Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.27540. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on all of this debt to a fixed rate of 8.21%.
11. The Province entered into currency exchange agreements which effectively converted these U.S Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.19801. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 9.07% and 5.60% on $2,676 million and USD 70 million, respectively and floating Canadian BA rate on $40 million; offset in part by the receipt of floating U.S LIBOR rate on USD 70 million.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

12. The Province entered into currency exchange agreements which effectively converted these Pounds Sterling obligations to Canadian Dollar obligations at an exchange rate of 2.11712. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.35%.

13. The Province entered into currency exchange agreements which effectively converted these Swiss Franc obligations to Canadian Dollar obligations at an exchange rate of 1.10691. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.47% on $436 million and floating Canadian BA rate on $283 million.

14. The Province entered into currency exchange agreements which effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.01282. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.24% on $1,670 million, and floating Canadian BA rate and Yen LIBOR rate on $199 million and JPY 27,000 million, respectively; offset in part by the receipt of floating U.S. LIBOR rate on USD 259 million.

15. The Province entered into currency exchange agreements which effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.01414. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.36% on $2,992 million, and floating Canadian BA rate and Yen LIBOR rate on $576 million and JPY 45,000 million, respectively; offset in part by the receipt of floating U.S LIBOR rate on USD 442 million.

16. The Province entered into currency exchange agreements which effectively converted these Deutsche Mark obligations to Canadian Dollar obligations at an exchange rate of 0.89250. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 7.87% on $1,761 million and floating Canadian BA rate on $470 million.

17. The Province entered into currency exchange agreements which effectively converted these Netherlands Guilder obligations to Canadian Dollar obligations at an exchange rate of 0.77542. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.44%.

18. The Province entered into currency exchange agreements which effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.95643. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 6.66% on $564 million and floating Canadian BA rate on $206 million.

19. Retractable in whole or in part on February 8, 2007, at the holder's option, provided that the notice of retraction is made during the period from July 15, 2006 to January 15, 2007 inclusive. Such election is irrevocable.

20. Retractable in whole or in part on March 1, 2010, at the holder's option, provided that the notice of retraction is made during the period from March 1, 1995 to February 12, 2010 inclusive. Such election is irrevocable.

21. Exchangeable at any time, in whole or in part, at the holder's option, for an equivalent principal amount of Series JG 9.50% bonds due January 12, 2035.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

22. Callable in full, and not in part, on July 27, 2001, at par.
23. The terms of these debentures require that the principal be repaid in twelve equal monthly payments in the year preceding the date of maturity.
24. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals. At January 10, 2035, the principal to be repaid on each debenture will be $2.3 million.
25. The terms of these debentures permit the principal to be repaid in either USD 44.6 million or AUD 55.0 million at the Province's option.
26. Interest payable is 6-month US LIBOR + 0.3%, with a maximum rate of 6.8%. Callable, in whole but not in part, at par on January 10, 2000 and every six months thereafter.
27. Interest payable is 6-month Yen LIBOR + 0.2%, with a minimum rate of 3.0% and a maximum rate of 4.5%.
28. Interest payable is 12-month Yen LIBOR + 0.3%.
29. 1995 OSB Series: Redeemable at the option of the holder on March 1 or September 1 or upon the death of the beneficial owner. The Minister of Finance may reset the interest rate from time to time prior to maturity. The minimum interest rate payable is 7.0% in year 3. Effective March 1, 1998 to August 31, 1998 the interest rate is set at 5.0%. The interest rate will be reset next on September 1, 1998.
30. The interest rate was set at 5.25% for the three year life of the bond.
31. Interest payable is 4.5% to May 27, 1996, then 1.0% + 5 times (YEN 7-year swap rate minus YEN 3-month LIBOR minus 1.28%) to maturity, with a minimum of 1.0%.
32. Interest is payable in Australian Dollars, based on a notional principal of AUD 66 million at a rate of 3.9%.
33. Interest is payable in Australian Dollars, based on a Notional principal of AUD 27.2 million at a rate of 6.0%.
34. Interest payable is 3 month U.S LIBOR rate.
35. Interest payable is 6 month U.S LIBOR rate +.0475%.
36. Interest is payable in Australian Dollars, based on a notional principal of AUD 138.2 million at a rate of 5.65%.
37. Interest is payable in Australian Dollars, based on a notional principal of AUD 149.3 million at a rate of 5.50%.
38. The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
39. Callable 15-25 years after date of issue at various declining premiums and thereafter at par. The Province called the bonds on April 25, 1998.
40. No interest is payable in the first five years, thereafter interest is payable monthly at an annual interest rate of 17.25%.
41. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals with the final payment on January 10, 2045. The total principal and interest to be paid over the life of the debenture is $1,325 million in total.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

42. The terms of these debentures require no interest payments until maturity, at which time a single payment, comprised of both principal and interest, will be made in the amount of $700 million.

43. The terms of these debentures set the par value of these debentures at $300 million, the proceeds at issuance at $255 million and the obligation to be repaid at maturity, at $241.8 million.

44. Callable, in whole but not in part, at par on October 27, 1998.

45. Callable, in whole but not in part, at par on October 12, 2000.

46. Interest payable is 3 month Deutsche Mark LIBOR + .0625%.

47. Interest is payable in Australian Dollars based on a notional principal of AUD 103.2 million at a rate of 3.2% payable annually.

48. The terms of these debentures require that a special one-time interest payment in the amount of $40.5 million be made at maturity. Interest payable is 4.35% for the first seven years, thereafter interest payable is 7.04%. The debentures are retractable, in whole but not in part, on December 2, 2003, at the holder's option, provided that the notice of retraction is made during the period from October 31, 2003 to November 12, 2003 inclusive. Such election is irrevocable and if invoked the one-time interest payment at maturity is forfeited.

49. These debentures have two call options exercisable on August 6, 1997. Each of Option 1 and Option 2 permits the purchase of $75 million 30 years debentures with a coupon interest rate of 8%, at a strike price of 108.00 and 109.50 respectively. One, both or neither of the options may be exercised but may not be traded separately. During the fiscal year, options 1 and 2 were fully exercised by investors.

50. Investors have exercised their option to exchange the 10 year 7.5% bond on March 27, 1998 for an equal amount of 7.5% bond due February 3, 2027.

51. Non-detachable exchange option allows investors to exchange the 10 year 7.5% bond on November 30, 1998, for an equal amount of 7.5% bonds due February 3, 2027.

52. The Province entered into currency exchange agreements which effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.07205. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.

53. The Province entered into currency exchange agreements which effectively converted these French Franc obligations to Canadian Dollar obligations at an exchange rate of 0.25158. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 6.31%.

54. Interest is payable in Australian Dollars, based on a notional principal of AUD 52.5 million at a rate of 3.10%.

55. Interest is payable in U.S. Dollars, based on a notional principal of USD 120.8 million at a rate of 3.25%.

56. Interest payable is 3 month Yen LIBOR rate + 0.1%.

57. Interest is payable in Australian Dollars, based on a notional principal of AUD 121.1 million at a rate of 4.28%.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

58. The terms of these debentures are: proceeds received at issuance were JPY 7,000 million, the obligation to be repaid is AUD 79.3 million and interest is payable in Japanese Yen based on a notional principal of JPY 7,000 million at a rate of 5.72%.

59. The terms of these debentures are: proceeds received at issuance were JPY 30,000 million, the obligation to be repaid is AUD 333.3 million and interest is payable in Japanese Yen based on a notional principal of JPY 30,000 million at a rate of 5.20%.

60. The terms of these debentures are: proceeds received at issuance were JPY 25,000 million, the obligation to be repaid is AUD 296.3 million and interest is payable in Japanese Yen based on a notional principal of JPY 25,000 million at a rate of 6.00%.

61. The Province entered into currency exchange agreements which effectively converted these Norwegian Kroner obligations to Canadian Dollar obligations at an exchange rate of 0.21235. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.

62. 1996 and 1997 Series OSB: Redeemable at the option of the holder on June 21 or December 21 or upon the death of the beneficial owner. The Minister of Finance may reset the interest rate from time to time prior to maturity.

63. The interest rate was set at 4.50% for the first year. The minimum interest payable is 5.75% in the second year, 6.25% in the third year, 7.25% in the fourth year, and 9.00% in the final year.

64. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 4.75%. Effective December 21, 1997 the interest rate was set at 4.25%.

65. Pursuant to the *Ontario Public Service Employees' Pension Act 1994,* and the *Asset Transfer Agreement of December 12, 1994*, the Province is obligated to re-split the debentures between the Public Service Pension Fund (PSPF), and the Ontario Public Service Employees' Union Pension Plan Trust Fund (OPSEUPF) based on accurate data when it is available. On June 13, 1997 a *Restated Sponsorship Amendment and Asset Transfer Agreement* was signed, replacing the 1994 agreement. Pursuant to this Agreement on September 17, 1997, the re-split of the debentures was completed. To effect this re-distribution of assets, $3,745.8 million of debentures held by PSPF and $1,751.4 million of debentures held by OPSEUPF were retired and replaced by $3,726.8 million and $1,770.4 million of debentures to be held by PSPF and OPSEUPF respectively.

66. The interest rate was set at 3.00% for the first year. The minimum interest payable is 5.25% in the second year, 6.00% in the third year, 6.50% in the fourth year, 7.00% in the fifth year, 7.50% in the sixth year, and 8.00% in the final year.

67. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 4.25%. Effective December 21, 1997 the interest rate was set at 4.25%.

68. Callable by the Province, in whole but not in part, at par on June 27, 2001.

69. The Province entered into currency exchange agreements which effectively converted these New Zealand Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.95632. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

70. On January 8, 2001, the investor has the right to purchase an equal amount of July 15, 2028, 6.25% bonds at a price of 105.66.

71. Notes are extendible at the option of the Province on September 4, 2000, 2003 and 2006 to the final maturity date of September 4, 2009. Coupon interest is paid semi-annually at a rate of 6.00% in years 1-3, 6.125% in years 4-6, 6.35% in years 7-9 and 7.625% in years 10-12.

72. Bonds are extendible at the option of the Province on every coupon date starting on October 10, 1999 to October 10, 2009, except in year five. Coupon interest is paid semi-annually at a rate of 5.875% in years 1-2, 6% in years 3-4, 6.25% in years 5-6, 6.375% in years 7-8, 6.5% in years 9-10, and 7% in years 11-12.

73. Non-detachable call options allow the investor to purchase an equal amount of the same bond at a price of 120. The call option can be exercised, only once, from August 21, 1998 to September 18, 1998. The maximum size of the issue after exercise will be $200 million.

74. KN Series bonds in the amount of $169.7 million face value were purchased and retired by the Province. Series LQ bonds were re-opened to finance the retirement of the KN Series bonds.

75. KT Series bonds in the amount of $149 million face value were purchased and retired by the Province. Series LQ bonds were re-opened to finance the retirement of the KT Series bonds.

76. On February 4, 1998, investors exercised their options and exchanged their 5 year Series KP bonds for 30 year 7.375% KQ Series bonds due February 4, 2027.

77. During the 1997/1998 fiscal year, Series KJ bonds were re-opened seven times bringing the total issue to $4,000 million.

78. Proceeds are received in Japanese Yen. Redemption of principal is in US Dollars at an exchange rate of 105 Yen/US Dollar. Interest is payable in Japanese Yen based on a notional principal of JPY 30,000 million at a rate of 3.25%.

79. Proceeds of issue and repayment of principal are in Japanese Yen. Interest is payable in US Dollars based on a notional principal of USD 86.3 million, at a rate of 3.58% payable annually.

80. Proceeds of issue and repayment of principal are in Japanese Yen. Interest is payable in US Dollars semi-annually based on notional principal of USD 57.1 million, at a rate of 2.6% payable semi-annually.

81. On December 7, 1998, exchangeable at par, at the holder's option for a 5.875% December 10, 2027 bond.

82. Extendible at the Province's option on March 2, 2000 and every 6 months thereafter with the exception of September 2, 2002 and March 2, 2003. Final maturity date is set at March 2, 2010. Interest accrues at 6.15% semi-annually and is paid on the maturity date.

83. Total Debt Incurred for Provincial Purposes on a consolidated basis, includes the long term debt of the Toronto Area Transit Authority (GO Transit) for $437 million and the Ontario Housing Corporation for $2,343 million.

84. The Treasury Bill balance does not include $193 million of Treasury Bills held by the Northern Ontario Heritage Fund Corporation which is eliminated upon consolidation.

85. The Province entered into currency exchange agreements which effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.2598. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on all this debt to a fixed rate of 5.29%.

PAPER E

Strategic Skills:

Investing in Jobs for the Future, Today

Strategic Skills: Investing in Jobs for the Future, Today

Overview

This Budget is about keeping Ontario competitive in the new global economy. It is about responding quickly to what employers have said about shortages of people with the skills they need now and in the future for economic success. It is about how to improve Ontario's training capacity and shorten the response time for developing necessary skills.

Current shortages of people with the right skills are blocking growth in certain new industries such as information technology. Real shortages will occur in other established industries — such as the automotive sector — where thousands of skilled workers will reach retirement age in the next few years. Many other sectors are affected by new technologies and now require specially skilled workers.

People with these strategic skills are key to economic growth and jobs in Ontario.

Ontario must find and act on the best plans for breaking through skills bottlenecks and equipping industries to grow and create jobs. Real results are needed now.

The Ontario Government is committed to responding directly to the critical skill shortages that businesses, workers and students are identifying. The Province is equally committed to providing more opportunities for youth and other workers in the high-paying jobs of the future.

The 1998 Budget addresses the serious shortage of graduates from our colleges and universities in high-demand engineering and computer science programs. Ontario will invest $150 million over the next three years to implement an Access to Opportunities Program, starting in September 1998, to double the spaces for students in these fields. In addition, operating costs for new spaces will be recognized and funded. The Government will apply a "market test" by requiring that industry match start-up costs.

A private-sector reference group will be appointed to get employers involved and to provide summer and co-op placements and permanent jobs for graduates.

The Ontario Government is taking further action to address other critical skill needs right now. The 1998 Budget commits more than $10 million to invest in four path-breaking skills projects that will increase the supply of strategic skills. Industry has identified these four critical skills areas and is prepared to invest in them along with government, workers, students and educators. The partnerships will benefit the auto parts, telecommunications, metalworking, new media and several other industries and their employees.

The Province is setting aside another $20 million this year to kick-start other forward-looking skills partnerships. Ontario will seek and fund the best projects that are ready to go now. The focus of the new investments will be on speeding up the creation of strategic skills.

These immediate skills investments will complement the $500 million R&D Challenge Fund introduced in the 1997 Budget. One of its key purposes is to attract and keep world-class researchers in Ontario by encouraging partnerships between businesses, universities and other research institutions. Over 100 proposals were submitted to the first round of competition and the first approvals are now being announced. World-class research will help companies to grow. Growing, innovative companies also need highly skilled workers.

Action on strategic skills also will complement the longer-term and broader perspective of the Ontario Jobs and Investment Board. Through the panel on Preparing People for Tomorrow's Work, a clear vision of the future relationship between learning and jobs will be set out for the new millennium.


Enhancing Ontario's Innovation Framework
Building Strategic Skills
Highly Skilled People in Ontario
Ontario's World-Class Research Institutions
Ontario's Growing, Innovative Companies
Financing Innovation in Ontario

Ontario on the Road to the Information Economy

The rapid growth and widespread use of new technologies across all sectors have created jobs that call for new kinds of skills — often called strategic skills. This is the case in sectors as diverse as automotive parts manufacturing, retail sales, banking, and computer software design.

Abundant natural resources, the advantage of geography that gives convenient access to large markets, and long-established relationships with familiar customers are no longer enough to secure prosperity and jobs.

Information and products move around the globe with increasing ease and speed. People with strategic skills create new products and services and use tools and methods that are undergoing continuous change.

People with strategic skills get jobs that:

- *meet the demands of new technology*, such as software development, biotechnology or computer-aided manufacturing;

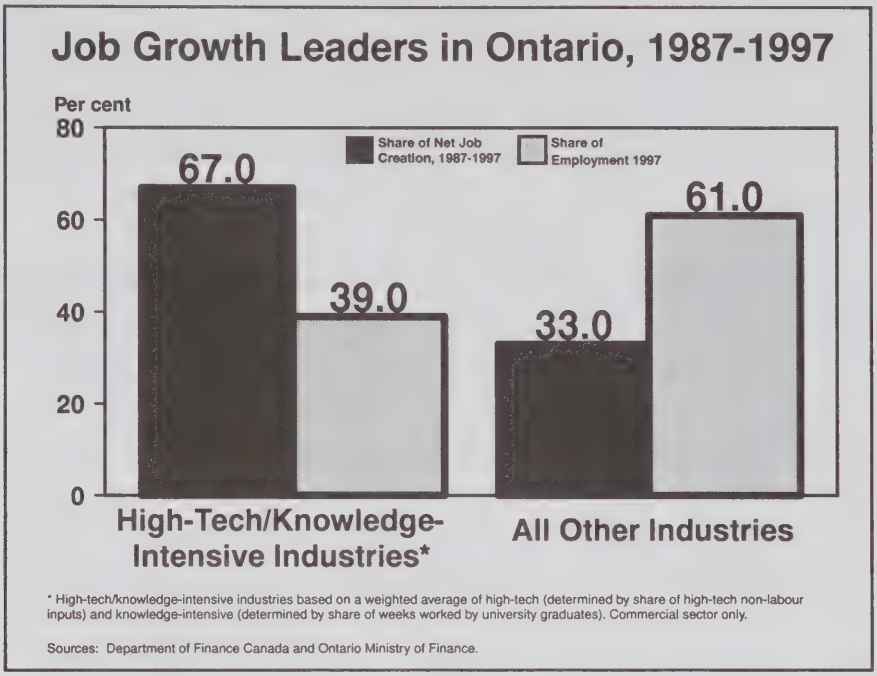
- *are essential to exploiting opportunities for economic growth* in any sector, and might include tool and die makers in manufacturing, master chefs in the hospitality industry, or highly trained "help desk" staff in the telecommunications industry;

- *create additional spin-off jobs;* for example, design engineers develop a product, which then requires manufacturing, marketing, sales and distribution workers to bring it to the customer.

Prosperity increasingly depends on these skilled people. Shortages of them stand in the way of growth and good jobs for young people.

Over the past decade, high-technology and knowledge-intensive industries have led job creation in Ontario. Two-thirds of net job creation have been in these sectors, even though they account for only 39 per cent of employment.

Nortel, the largest R&D performer in Canada, reports that 10 years ago 45 per cent of its employees were knowledge workers; today, this has risen to 77 per cent.



Skill Shortages Identified by Business

The demand for new and specialized skills is growing rapidly. There are warning signals that shortages of people with the right skills are already critical for some sectors and will become widespread in others.

- The Canadian Advanced Technology Association (CATA) has projected a shortfall in Ontario of 42,000 computing scientists and computer-related engineers over the next five years. They say that Ontario must "double the pipeline" of these graduates to remain competitive.

- A 1997 Industry Canada survey indicated that 35 per cent of information technology companies had vacancies for highly skilled workers. Seventy-seven per cent of companies forecast an increase in their demand for these workers over the next two years.

- A 1996 Canadian Federation of Independent Business survey found that nearly one-half of its members reported difficulty finding qualified workers. The findings for Ontario were similar.

- The Automotive Parts Manufacturers' Association (APMA) says that the main challenge facing the industry is the serious shortage of trained technical workers, including engineers, quality control workers, and tool and die makers. The reasons are both demographic and technological. The APMA projects that more than one-third of auto parts workers will retire in the next 10 years, rising to over 70 per cent in some plants. In the automotive assembly sector, some 40 per cent will reach retirement age by 2003. Many other industries share this concern.

Shortages of employees with the right skills can stunt economic growth, affecting the success of businesses and their capacity to provide jobs for youth and the unemployed. Shortages can result in lost business opportunities at home and abroad. The Minister of Economic Development, Trade and Tourism's Export Marketing Task Force, composed of 27 senior executives from leading Ontario companies, has identified shortages of scientists, engineers, and business professionals with a global outlook as critical barriers to global competitiveness.

Shortages of skilled people also can discourage new investment. A 1997 Goldfarb Consultants' study of the views of international investors stated that "the most important resource which many companies consider when making investment decisions is the availability of skilled labour."

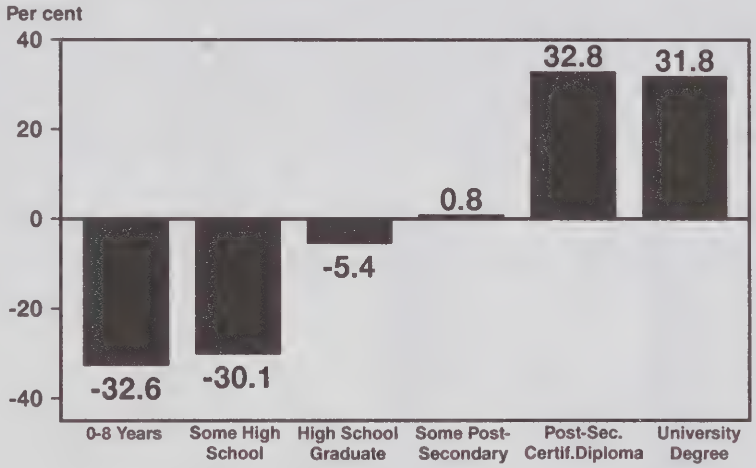
Ontario's highly qualified workforce is one of the Province's major selling points for new investment. Serious, prolonged skill shortages in high-investment sectors of the economy could affect Ontario's excellent reputation as a place to do business.

Skill shortages are an indication of mismatches between available jobs and skilled people. Mismatches waste talent and energy, especially of young people.

Education Paves the Way to Good Jobs

Since 1990, all new jobs, on a net basis, have gone to those with higher education and job skills. A declining number of jobs are open to those with less than a high school education. In fact, jobs requiring higher levels of education and training — managerial, professional and technical jobs in science and engineering, health care, teaching and skilled trades — are forecast to contribute nearly half of all new jobs in Ontario between 1995 and 2005.

Employment Growth Rates by Level of Education, 1990-1997



Source: Statistics Canada, Labour Force Survey.

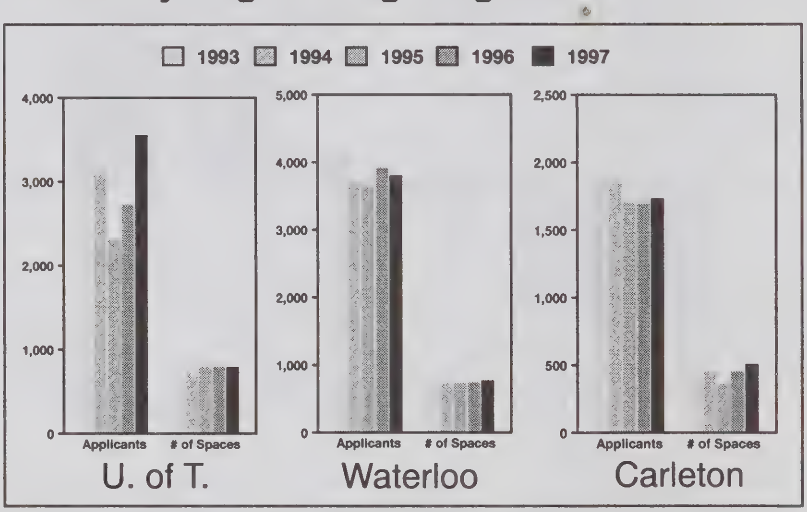
By world standards, Ontarians are well educated and therefore generally well equipped to meet the challenges of a changing economy. In 1994, 46.5 per cent of Ontarians aged 25 to 64 had completed post-secondary education, the highest percentage in the Organization for Economic Co-operation and Development (OECD). Such graduates have a wider range of skills and capacity to adapt to changes in the job market. They also are more likely to upgrade their skills throughout their careers.

The Youth Perspective

Young people need to be able to acquire the strategic skills they will need to obtain good jobs, while helping to fill the skills gap.

Our best-qualified high school graduates are eager to develop high-demand skills. However, there are many more applicants to high-demand engineering and computer science programs than spaces. At the same time, demand for skilled graduates is growing faster than colleges and universities can expand or create programs.

Applications vs Available Space in University Engineering Programs



Source: Nortel, The Supply of High Technology Professionals, February, 1998.

Keeping pace with rapidly changing skills needs and keeping the infrastructure up to date taxes the ingenuity and flexibility of the public education system.

It costs more to train students in high technology and engineering fields than in many other program areas, creating a barrier to expansion. There are also considerable costs to acquire laboratory equipment, hire new faculty or undertake capital expansions to open new programs.

The result is that many otherwise-qualified young people are being denied the opportunity to enter science and technology programs.

Data from the 1996 Census show that graduates from science and technology programs as a share of all post-secondary graduates in Ontario actually declined over the past decade, from 19.1 per cent in 1986 to 17.7 per cent in 1996.

Colleges and universities are trying to respond to these pressures. For example, at least six universities plan to expand the number of spaces available in first-year computer-related engineering programs in September 1998.

Other colleges and universities have restructured some of their traditional disciplines to create new programs that meet the new skill demands.

But these efforts are not enough. There must be further, significant increases in programs in high-demand fields. Business needs the graduates, and Ontario's young people are eager to enter these careers.

Apprenticeship is another important way in which employers, institutions and government work together to develop skills that are important to Ontario's economy.

Apprenticeship prepares young people for a wide variety of occupations in the service sector, in construction, and in manufacturing, including the auto, aerospace and high-technology sectors. These are well-paid jobs such as industrial millwright, tool and die maker, microelectronics manufacturer, mechanic, electrician, plumber and skilled horticulture worker.

Skilled trades are in high demand in rapidly growing sectors of the economy, and pressures are developing because large numbers of skilled workers are approaching retirement age.

Apprenticeship training is driven by the real needs of employers and results in certification that lets all employers know exactly what skills have been attained.

However, legislation governing the apprenticeship system is outdated—unchanged since 1964. The Province is now reforming and modernizing the apprenticeship system to give industry a stronger role, eliminate unnecessary government regulation, and make it easier and more attractive for young people to train in skilled trades in high demand.

Re-skilling the Current Workforce

It is a fact that most people who will be working in the next decade are already employed. Creating opportunities to update their skills also will lead to jobs and growth. Life-long learning is no longer just a slogan.

As the knowledge needed to do the job well changes rapidly, existing skills, even for the best educated, have a limited life span and need constant renewal. For example, investment in computer-assisted equipment has increased at an explosive rate over the past decade. To manage this sophisticated machinery, workers have to attain new skills, including higher literacy skills in document reading and numeracy. Establishing high levels of literacy — both traditional and technical — is as important as keeping up to date with job-specific skills.

Workers know they need support and opportunities from employers to build on their experience and dedication. A 1997 Conference Board of Canada report observes that research on different types of training shows a high return from employer-based training.

While Canadian governments spend more on education than governments in most other jurisdictions, Canadian employers spend less than their international counterparts on employee training. Canada ranked 37th among 49 countries on in-company training activity in a 1996 survey by the World Economic Forum. Only 31 per cent of Canadian firms reported being actively involved in training their workers, compared with 80 per cent in Great Britain, according to a 1991 OECD study.

Industry must become more self-reliant in training workers and developing a strong culture of training. Employers must provide training in firm-specific skills. It is in their interest to commit effort and dollars to new approaches to skills development.

New Solutions and Approaches to Strategic Skills

Business, educators, trainers, students and workers all have made it clear that action to address critical skills is needed now. Solutions must be based on the insights and active contribution of all these players:

- business, which brings the knowledge of skill needs and provides jobs and training for workers;

- public educators and private trainers, who are aware of skill needs and respond to them;

- governments, which create a healthy environment for growth and invest strategically to ensure that opportunities for economic growth happen;

- individuals, who invest in education and skills throughout their lives.

The stakes are high and the most successful businesses, sectors and institutions are leading the way. Some forward-looking efforts by industry and educational institutions, illustrated on the next page, are already under way. However, Ontario needs action now to expand and build on these partnerships. Ontario needs to speed the introduction of more projects like these. Public funds can be used to produce targetted and quick results.

The old way of supporting training through unfocused grants and wage subsidies to businesses and workers by federal and provincial governments alike is not strategic and will not meet Ontario's needs. A new approach that targets critical skills is required.

The new approach features new partnerships and collaboration, and invests in skills directly related to employment outcomes. It asks the questions: Will investments guarantee good jobs? Are businesses and students willing to pay a fair price for the training?

The new approach builds greater company and sectoral self-reliance in training workers. It ensures industry's commitment of effort and dollars. It rewards flexible and responsive educational structures.

Leading the Way: Industry Partnerships to Train for the Future

The Ontario Chemical Industries Council (OCIC). OCIC, in partnership with a private training company, Williams Learning Network, developed an affordable, interactive CD-ROM training program that employees in many small and medium-sized companies can access for on-the-job training and skills upgrading.

Centre for Advanced Robotics, Mechatronics and Intelligent Systems. Toronto-based R&D company Energenius Inc. and the University of Toronto are working together to train 30 students in robotics and mechatronics. The students will work with international researchers toward a Master of Applied Science.

Ottawa-Carleton Venture in Training Engineers and Scientists for Software Engineering. O-Vitesse, a collaboration between the University of Ottawa, Carleton University and seven local companies, retrains people who already hold science or engineering degrees in non-computer specialties to work in the software industry. Forty-two students are now in the program, working with local companies, including Newbridge, Nortel, Cognos and Mitel. Participating firms pay the students' tuition for two study terms and hire and train them on two work terms.

Brock University. Brock offers Canada's only B.Sc. in oenology and viticulture, to meet the needs of Ontario's grape and wine industry.

Confederation College. This college offers a unique program in aviation manufacturing, developed in conjunction with Bombardier, Boeing and Bristol Aerospace.

Textile Management Internship Program. The Textiles Human Resources Council has teamed up with McMaster University and Mohawk College to help fill the gaps created by high retirement rates among textiles industry managers. The new one-year program helps science, engineering and technology graduates acquire additional skills for managerial and professional positions.

Taking Immediate Action

The 1998 Budget addresses the serious shortage of graduates from our colleges and universities in computer science and high-demand engineering programs. The Canadian Advanced Technology Association has said these skilled workers are critical to growth.

The Ontario Government will invest $150 million over the next three years to implement an Access to Opportunities Program, starting in September 1998, to enable twice as many university students to enroll in these fields. Colleges will commit to increase student opportunities by 50 per cent in related technology programs. The Government will apply a "market test" by requiring that industry match start-up costs identified by universities and colleges applying for the new funds. In addition, operating costs for new spaces will be recognized and funded.

If all universities and colleges accept the challenge, the investment will achieve over 8,000 new entry-level spaces by September 2000. In five years, up to 17,000 new opportunities for students will be created. A private-sector reference group will be appointed to get employers involved and to provide summer and co-op placements and permanent jobs for graduates.

The Ontario Government is taking further action right now to address other critical skills needs. The 1998 Budget commits more than $10 million to invest in four path-breaking skills projects that will increase the supply of strategic skills. Each of these projects involves a major financial contribution from the firms and sectors whose urgent needs they meet. These investments are described below. They will immediately benefit the auto parts, telecommunications, metalworking, new media, and several other industries.

This public investment will kick-start Ontario's direct response to creating the skills the economy needs now. It will speed up the creation of strategic skills.

These targeted skills project funds will be in addition to the post-secondary education grants, tax credits and other training programs already in place to support students, apprentices and institutions in educating Ontarians.

Four Path-Breaking Skills Projects in 1998

Georgian College and IRDI — Centre of Expertise for Automotive Parts Design and Manufacturing Technology. Ontario will invest $3.8 million in a collaboration between the college and the Industrial Research and Development Institute (IRDI). IRDI focuses on industrial design and research and has 250 member companies in the automotive and related industries. This investment will immediately fill a skills gap by offering leading-edge introductory training, customized advanced retraining for already highly skilled workers, and share more widely the results of IRDI's applied and theoretical research. The tool and die program will be doubled. The advanced program will increase enrollment to 300 in 1999 from 75 in 1998.

Canadian Film Centre — New Media. Ontario will invest $500,000 to support a private-sector-led initiative at the Canadian Film Centre, to provide innovative training in new media. The focus is on integrating business skills with technical and creative skills to foster creation of compelling new media products. New media specialists currently have insufficient opportunities for continuing education.

Conestoga College — Metal Machining, Automated Manufacturing and Engineering and Information Technology. Ontario will invest $3.6 million to help address skill shortages identified by a number of key industries in Canada's Technology Triangle in the Cambridge-Guelph-Kitchener-Waterloo region, such as S-S Technologies, Kuntz Electroplating, ATS Automation Tooling Systems and Waterloo Furniture Components. Conestoga College will expand training in metal machining and other key engineering technologies. Spaces will increase for 800 full-time students and 3,500 part-time students.

Humber College — Telecommunications Learning Institute (TLI). Ontario will invest $3 million to help provide comprehensive business and technology training, from executive to entry-level, in the telecommunications industry. With the support of 26 industry partners, TLI and Humber will manage an integrated training delivery network. TLI will deliver training through effective use of training technology, from CD-ROM to on-line access. At full capacity, it will provide training for over 17,000 employed workers annually.

Next Steps

As the next step in the response to critical skills needs, Ontario has set aside another $20 million this year to seek out and fund the best projects that are ready to go now: collaborations that lead by example and meet urgent needs.

The Minister of Energy, Science and Technology, in co-operation with the Ministers of Economic Development, Trade and Tourism, and Education and Training, will receive proposals and approve projects in June, September and February this year through a competitive process. This will balance quick response with fairness.

The focus of the new skills investments will be on creating strategic skills essential to competitiveness in growing industries right now. It will be on expanding opportunities for youth and the unemployed to train for high-demand, high-paying jobs. It will be on improving Ontario's public and private training capacity for strategic skills.

Proposals are expected for a wide range of sectors and skills. Recognizing that strategic skills are present throughout the economy, participation will be open to all sectors. Partnerships will be formed among sectors, public- and private-sector educators and trainers, foundations, regional organizations, and unions.

The investments will reward flexibility and innovation. Different projects will require various kinds of start-up investments, including facilities, personnel or capital, but public investments will not address employer wage costs or training allowances.

The Government's willingness to invest in strategic skills is built on the expectation that all participants — industry, educators, students and governments — will contribute substantially to the new skills partnerships. The investment provided by the Ontario government will trigger millions of additional dollars in spending by project partners:

- Industry will take the lead in proposing strategic skills projects, contributing both to start-up funding and to ongoing costs of projects. Its contributions will include wage costs, training allowances, equipment and facility donations, donations of skilled professionals as faculty and trainers, and supervision of co-op student placements or apprenticeships.

- Universities and colleges are Ontario's primary source of higher education and training. They and private-sector training providers will be major partners in implementing the new projects. Their contribution will include course development, assessment and certification processes, faculty and trainers, student scholarships and new facilities. Over the longer term, institutions may also look to endowment funds and to restructuring of programs to divert resources to high-demand areas.

- For their part, students and workers will invest in education and training through tuition and commitment of time and effort.

- With successful completion of a Canada-Ontario Labour Market Development Agreement, the Ontario Government will direct Employment Insurance funds — paid for by Ontario's employers and employees — toward the Province's priorities for helping the unemployed get back to work. Two of those priorities would be strategic skills training and apprenticeship.

Immediate action on short-term needs will be complemented by the Ontario Jobs and Investment Board's longer-term and broader perspective. Through the panel on Preparing People for Tomorrow's Work, a clear vision of the future relationship between learning and jobs will be set out as well as the steps to be taken over the longer term to address projected skill requirements.

Conclusion

The Ontario Government's commitment is to respond directly to Ontario's critical skills needs, ensuring that employers have the right workers at the right time and providing Ontarians with access to better jobs.

Addressing strategic skills adds a critical piece to Ontario's innovation framework. The immediate actions and the consultations proposed through the Ontario Jobs and Investment Board will bring together the best thinking and the best practices to create the skilled workers and jobs essential to success in the economy of the 21st century.

Immediate Investments in Strategic Skills

Project Sponsors
A wide range of partnerships is expected among the following:

- sectors/industries
- private and public educational institutions and providers
- foundations
- communities/regional organizations
- unions.

Strategic Focus
The focus is on creating strategic skills essential to competitiveness in growing industries right now.

The focus is on expanding opportunities for youth and other workers to train for high-demand, high-paying jobs.

The focus is on improving Ontario's public and private training capacity for creating strategic skills.

Funding
All partners, including the Ontario Government, will contribute based on potential benefits.

Public funding will be awarded on a competitive basis.

Eligible Costs
One-time costs integral to implementing the project will be considered. Employer wage costs will not be eligible.

Administration
Government commits to an expeditious decision-making process.

PAPER F

Making Welfare Work

Making Welfare Work: Ontario's Success with Welfare Reform

Overview

When the Government took office in 1995, the challenge posed by the welfare system was staggering. Through the policy failures of past governments, welfare had lost its original purpose: a transitional program of last resort for those truly in need, with a stepping stone back to work.

The loosening of eligibility rules had turned welfare into a first line of defence rather than a program of last resort. Benefit enrichments had weakened its connection to getting back to work and self-sufficiency. Taxpayers had lost confidence in a system in which growth in welfare rolls and expenditures were out of proportion to economic conditions.

Welfare cost the provincial government more than $40 billion between 1985 and 1995. By 1994-95, provincial costs had peaked at $6.7 billion, up from $1.5 billion in 1985-86. This was more than one-third the size of the health budget.

Welfare dependency in Ontario had risen to record levels — the highest in Canada. The welfare caseload had not declined since 1976. Increases occurred even in good economic times, even as unemployment fell.

The Government came to power promising fundamental welfare reforms. The goal was to return the welfare system to its original purpose and restore hope for people by breaking the cycle of dependency.

The Government has delivered on its commitment to implement fundamental welfare reform. And welfare reform is working. Ontario has registered a dramatic reduction in the welfare caseload since June 1995.

Ontario Works is providing people with the skills, confidence and opportunities to return to work.

However, with more than a million Ontarians still relying on public assistance, the challenge is far from over. Ontario must continue on the path of welfare reform and support low-income working families to ensure that they remain self-reliant.

A Welfare System Badly in Need of Reform

In 1995, the Government inherited a welfare system that was out of control and badly in need of reform.

Previous governments had failed to ensure that welfare remained a system of last and temporary resort for the truly needy. Instead, through the previous decade, Ontario's welfare system had become a system that trapped people into long-term dependence on government handouts. Too often it acted against those who wanted to work.

It also had become a system open to abuse, losing the confidence of those who paid for it — the taxpayers.

Rising Dependence Even in Good Economic Times

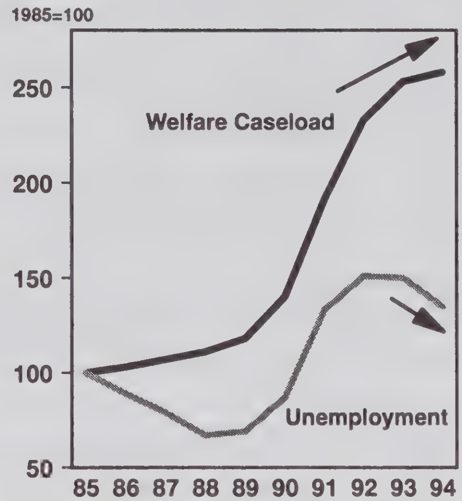
In 1983, following the recession of the early 1980s, the number of jobless in Ontario peaked at half-a-million, an increase of 63 per cent over the recession period. Over this same period, Ontario's welfare caseload rose by 25 per cent, much less than the rise in unemployment.

From 1983 to 1989, Ontario enjoyed a period of rapid economic growth. Ontario's economy generated nearly a million net new jobs. The unemployment rate was cut in half. However, the welfare caseload continued to grow, even as unemployment fell.

When the 1990s recession set in, the proportion of people on welfare was already unacceptably high.

What had gone wrong with the welfare system?

Trends in Welfare Caseload and Unemployment



Source: Statistics Canada, Ontario Ministry of Community and Social Services and Ontario Ministry of Finance.

The welfare system had stopped responding to changes in economic and job conditions. Past government policies had relaxed eligibility rules and enhanced benefits. These measures undermined the Province's ability to ensure that welfare benefits went only to those truly in need.

These measures also made welfare generous to the point where the incentive to leave welfare was seriously eroded. The link between welfare and returning to work had been broken for those who were able to work.

The Policies of Past Governments Failed the Welfare System

Benefit rates enriched For many welfare recipients, benefit rates between 1985 and 1994 rose at more than double the rate of inflation. By comparison, the average earnings received by Ontario workers, after adjusting for inflation, rose only marginally.

Work Incentives Eroded In many cases, high welfare benefits left welfare recipients better off financially than if they were working. For example, before the social assistance rate reductions implemented in 1995, a single parent with two children would have needed a full-time job paying more than $10 an hour to earn the equivalent of what she or he received from social assistance. Such disincentives to work undermined welfare recipients' ability to become self-sufficient.

Single-Parent Rules Relaxed The introduction of the "spouse-in-the-house" rule in the latter part of the 1980s contributed to the increased size and cost of the single-parent caseload. Under this rule, a single parent could live with a common-law partner for three years before the partner's income was considered part of the family's finances.

Growing Abuse The absence of effective screening mechanisms failed to separate the truly needy from those who tried to defraud the system. This created the perception that the welfare system was an easy target for fraud and abuse, and eroded taxpayers' confidence in the management of the system.

Ontario Was a Leader in Welfare Dependence

The early 1990s recession, together with generous welfare benefits and ease of access, led to an unprecedented growth in the Province's welfare rolls. Ontario had the dubious distinction of becoming a leader in welfare dependence.

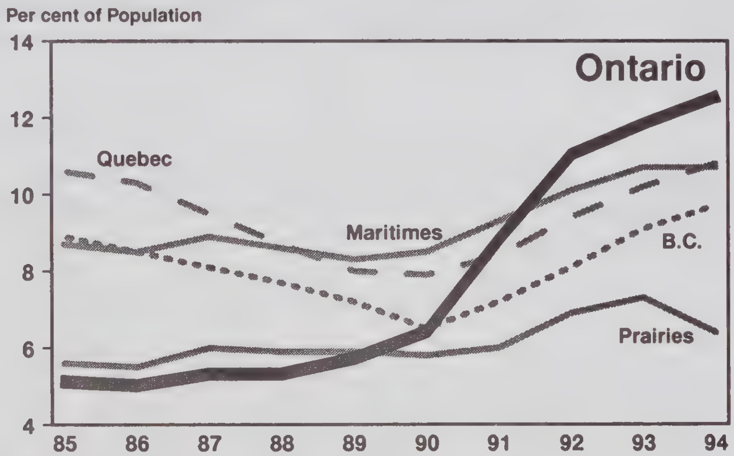
In 1994, Ontario's welfare rolls peaked at 673,000 cases. More than 1.3 million men, women and children — or one in eight Ontarians — depended on government assistance. A decade earlier, only one in 20 depended on welfare.

Average stays on General Welfare Assistance (GWA) nearly doubled over the first half of the 1990s. The welfare system that was supposed to cushion temporary difficulties had become a trap of long-term dependence.

Welfare dependence in Ontario also grew faster than in every other province. In 1985, Ontario had the second-lowest proportion of people on welfare (5.2 per cent) among provinces, next to Alberta. By 1994, Ontario ranked highest among provinces for welfare dependence, at 12.6 per cent.

Ontario, one of Canada's wealthiest provinces, had the highest per-capita welfare caseload in the country.

Welfare Dependence
Ontario Compared to Other Provinces



Source: Human Resources Development Canada and Ontario Ministry of Finance.

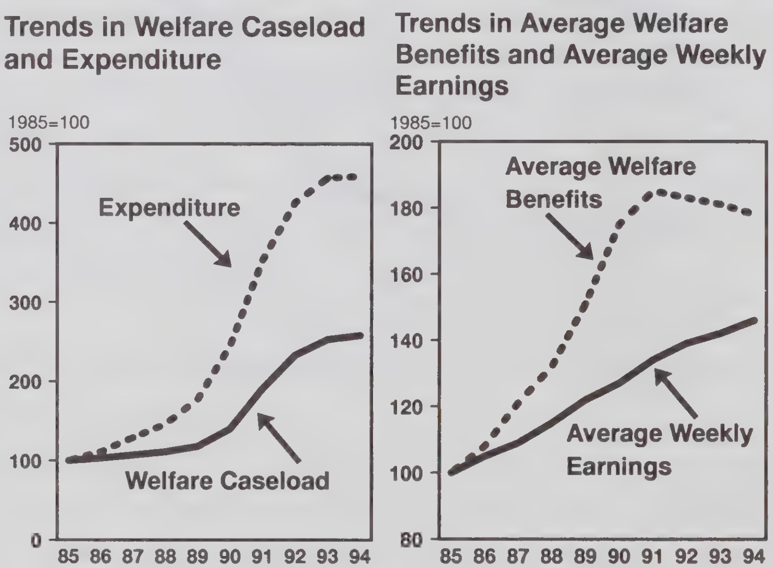
The Price of Welfare Dependency

Record-high welfare dependency carried a steep price. This was paid by those on welfare who saw their initiative, their self-esteem, their skills and their earnings potential erode. It also was paid by taxpayers who footed a welfare bill of more than $40 billion between 1985 and 1995.

Record growth in the welfare caseload, along with a series of benefit enrichments, added to the fiscal pressures faced by Ontario in the 1990s. Growth in welfare expenditures outstripped caseload growth by two to one.

The cost of social assistance benefits rose 77 per cent between 1985-86 and 1989-90. In the next five years, it rose another 159 per cent to the unsustainable level of $6.1 billion a year in 1994-95.

The average cost per year of a welfare case to the province rose from $5,600 in 1985 to nearly $10,000 in 1994.



Sources: Statistics Canada, Ontario Ministry of Community and Social Services and Ontario Ministry of Finance.

Fixing Ontario's Welfare System

After taking office, the Government moved quickly to meet the commitments made in the *Common Sense Revolution* to provide major reform to Ontario's welfare system.

Making welfare work for those who need it was a social policy priority. Making welfare work for the majority who pay for it was a fiscal imperative.

Reform Principles

Effective welfare reform is not only about restoring good fiscal management. It is also about fundamentally changing welfare from an expensive, confusing system that trapped 1.3 million on dependency to a system that focuses on encouraging self-sufficiency and getting people back to work.

The Government's reform commitments were:

- To restore the welfare system to its original purpose: a transitional program of last resort, with a stepping stone back to work and independence.

- For people with disabilities, to provide a new program outside the welfare system that meets their unique needs, protects their benefits and provides better employment supports.

Welfare reform was guided by three principles: fairness, accountability and effectiveness.

Guiding Principles of Reform

Fairness Programs that merely provide financial assistance and do not assist welfare recipients back into jobs fail to meet the principle of fairness. They let down the people who need assistance by trapping them in a vicious circle of dependency and skill loss. They also fail the taxpayers. They lead to perpetually growing costs. They squeeze out other programs and priorities. They increase public debt.

Accountability Effective programs must provide for mutual accountability. Government is accountable to both the taxpayers, who pay for the programs, and to those who use them. Welfare recipients are accountable for their own efforts to join or rejoin the workforce.

Effectiveness An effective welfare program is one that works and is seen to work. Effectiveness means positive results. For those who can work, it means the shortest route to self-sufficiency and a job.

Welfare Reform that Leads to Jobs: Ontario Works

The Government implemented a series of reforms that followed the three principles. It is called Ontario Works.

Strengthening Incentives to Work

People should always be better off working than on welfare. Ontario reduced welfare benefits that had been about 30 per cent above the average of the other nine provinces, to a level about 10 per cent above benefits in other provinces. This ensures that a single person will be significantly better off working at the minimum wage than on welfare. Recipients are allowed to earn back the difference between the old and new rates without penalty. This earn-back provision is the most generous in the country.

Focusing on Returning to Work

Ontario introduced mandatory participation in job search and community placements to help people in financial need make the transition to self-sufficiency.

The Ontario Works program is now in place in communities across the province. Already, more than 240,000 people have participated in one or more of the program's mandatory activities:

- community service participation that builds the skills, confidence, contacts and opportunities to return to work while allowing participants to contribute to their communities;
- job searches and services to support job searches;
- referral to basic education and other job-specific skills training for many who lack the proper preparation to get a job or a better job; and
- employment placement to deliver direct help in getting a job.

People are provided with the child care and other supports they need to participate. An additional $30 million in child care has already been provided to enable parents to access the same opportunities leading to jobs and independence that are available to others.

Tightening Eligibility

A number of changes were introduced to ensure that only those truly in need were eligible to receive welfare. Sixteen- and 17-year-olds are required to be in school or training and be under adult supervision in order to obtain assistance. The definition of spouse was clarified to specify circumstances under which people living together in common-law relationships are not eligible for assistance. Welfare eligibility is curtailed for people who left jobs or refused employment.

Clamping Down on Fraud and Abuse

To protect the system for those who truly need it and to restore the confidence of the public, disincentives for abuse were implemented. These included establishing a welfare fraud hotline and developing information-sharing agreements with other provinces and Ottawa.

A New Legislative Framework

The *Ontario Works Act* was passed by the Ontario Legislature in November 1997 and was proclaimed May 1, 1998. The *Act* provides the legislative basis and continues the process of welfare reform in Ontario.

The *Act* ensures the provision of basic financial assistance to participants, and mandatory dental and vision care for children. It specifies the types of employment assistance available to help participants achieve self-sufficiency. It requires that sole-support parents participate in these community and employment measures, once their children are in school.

More Effective Delivery

The *Ontario Works Act* also contains the first substantial legislative changes in more than 30 years to the delivery of welfare, by providing for a single system at the municipal level. Municipal governments are closer to their communities, are more flexible and can therefore be most effective. The number of municipalities delivering assistance is being reduced from about 200 to approximately 50.

First Nations will continue to deliver the welfare program in their communities through Ontario Works.

Protecting the Disabled

Welfare reform also has responded to requests from the community to reform the system for people with disabilities.

A new and separate program ensures that people in need with clearly assessed disabilities receive income and employment supports that meet their unique needs. The Ontario Disability Support Program, to be proclaimed in June 1998, enshrines the new program in law.

People with disabilities have been moved out of the welfare system where they never should have been.

Their benefits have not been reduced. These benefits remain the most generous in Canada — almost 50 per cent higher than the average of the other nine provinces.

People with disabilities who can and want to work are receiving better employment supports.

Welfare Reform is Working

The Ontario Government is delivering on its commitment to implement fundamental welfare reform. Already there is positive proof that Ontario's reform programs work in practice as well as in theory.

Dramatic Caseload Reduction

Welfare reform, along with Ontario's robust job market, is producing impressive results. The Government's welfare philosophy and actions have fundamentally altered the policy environment and broken through the barriers that fostered dependence and wasted human resources.

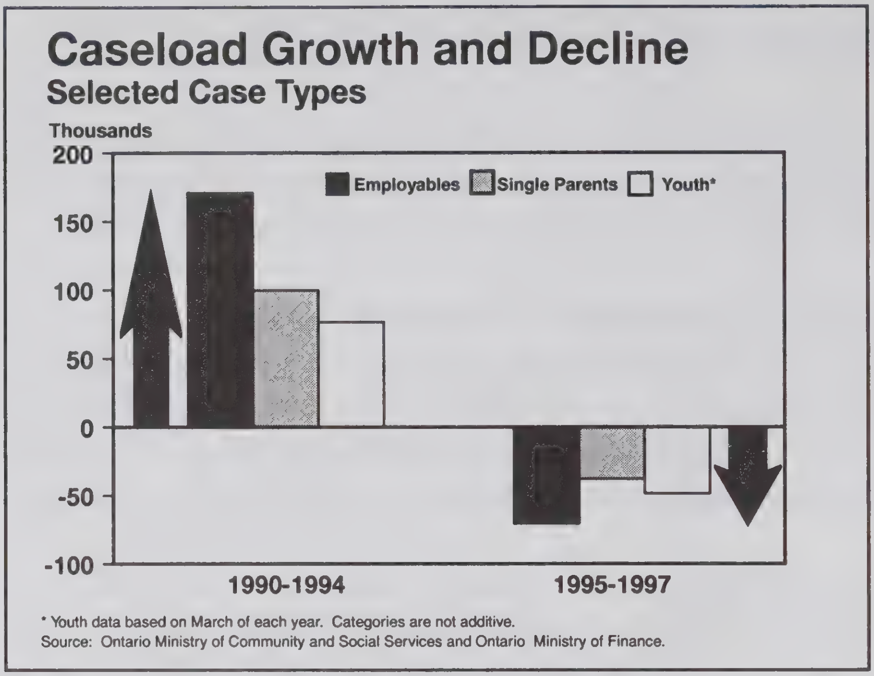
Since June 1995, the number of people depending on welfare in Ontario has declined by more than a quarter million, a decline of almost one-fifth. The welfare caseload has declined by almost 130,000 cases, again, about one-fifth of the entire caseload inherited by the Government.

This decline in the number of recipients is equivalent to the populations of Belleville, Ajax, Sarnia, Owen Sound and North Bay combined.

Ontario's rate of welfare dependence has been reduced from one in eight at the end of 1994 to one in 11 in the spring of 1998. This achievement contrasts sharply with the perpetual caseload growth that characterized the previous decade.

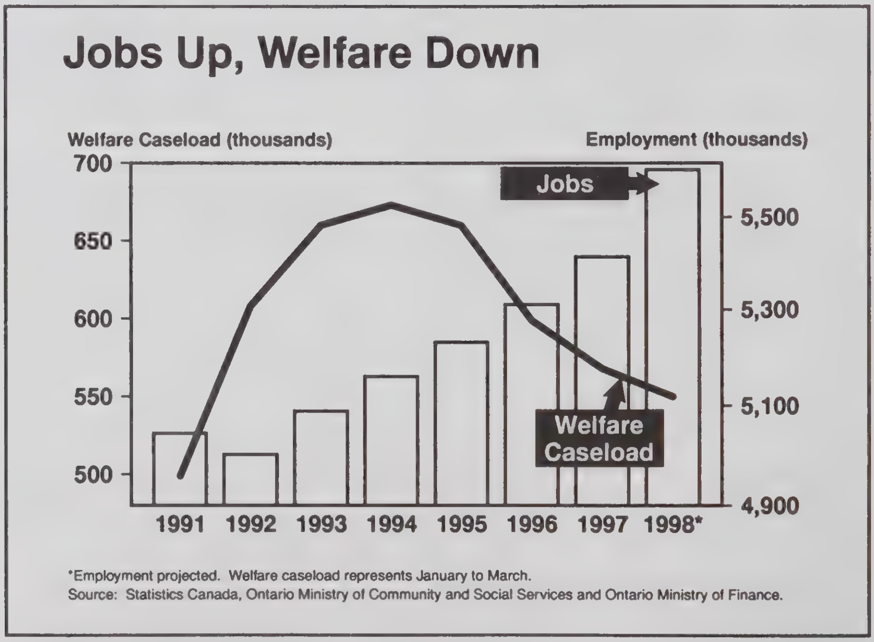
In 1997, the caseload declined by 5.2 per cent. This followed declines of 9.2 per cent in 1996 and 2.0 per cent in 1995. These three consecutive years of decline are the only ones since 1976.

Caseload reduction is occurring across most case types, including single parents and youth. In 1997, single-parent cases declined by 8.8 per cent and youth cases by 9.7 per cent.



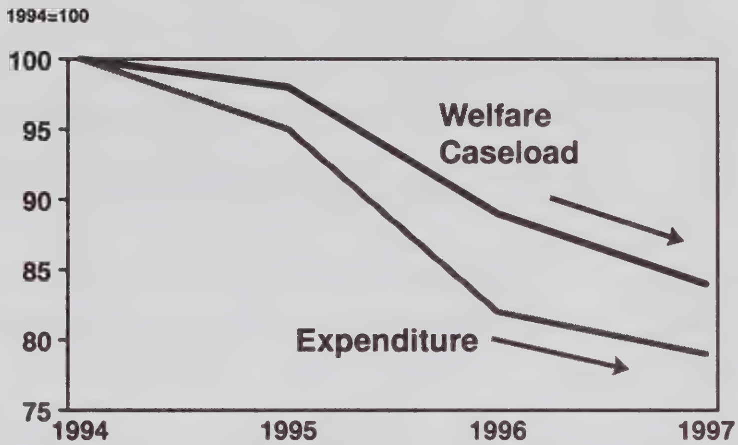
People leaving the welfare system are finding jobs. Private-sector employment in Ontario has increased by 345,000 net new jobs from September 1995. Welfare recipients, along with other unemployed people in Ontario, are benefitting from the vibrant economy.

An independent study commissioned by the Ministry of Community and Social Services showed that about 60 per cent of those who left welfare did so for job-related reasons.



The Government's reforms and effective management of the welfare system also have resulted in savings to taxpayers of over $1 billion — money that can be better used to pay down Ontario's deficit or help pay for priority programs such as health and education.

Trends in Welfare Caseload and Expenditure



Source: Statistics Canada, Ontario Ministry of Community and Social Services and Ontario Ministry of Finance.

Successes in the Community

Community agencies are responding to Ontario Works by providing opportunities that give participants a chance to apply and update their existing skills and gain new ones. They are providing them with routes to paying jobs and opportunities to give something back to their communities.

Community service participants are contributing to their communities in areas such as conservation, palliative care and community sports.

Continuing to Respond to the Caseload Challenge

Ontario has dramatically reduced the welfare caseload and welfare dependence. However, the caseload is still unacceptably high, with more than one million Ontarians relying on social assistance.

Ontario must continue on the path of welfare reform, a path that provides the fastest route to a paying job to those still trapped on welfare.

The next phase of welfare reform will build on the achievements to date:

- Community service placements in Ontario Works will be expanded. The ultimate goal is to allow every welfare recipient to contribute something of value in exchange for his or her benefits.

- The Government will remain vigilant against fraud and abuse to ensure that the welfare system remains viable for those who need it and maintains the trust of those who pay for it.

- The Government will seek ways to further simplify a welfare system that remains too bureaucratic and too complicated. Legislative and other reforms already have served to significantly rationalize welfare programs and delivery while increasing accountability.

- Child care supports will be expanded for those on welfare. The Learning, Earning and Parenting (LEAP) program will provide $25 million in subsidies and other supports for single parents on welfare to help them finish school. An additional $10 million will be made available for child care assistance for other participants in Ontario Works to provide greater flexibility and choices. These measures are in addition to the $30 million already dedicated to the child care needs of Ontario Works participants. This expansion of child care moves the welfare system closer to the ultimate goal of ensuring that all parents on welfare benefit from workfare through access to child care.

With the successful negotiation of a Canada-Ontario Labour Market Development Agreement, millions of dollars in Employment Insurance funds will be available to help Ontario's welfare recipients get back to work.

Supports to Working Families

Reforming welfare to ensure people have a stepping stone to work is essential. However, the challenge does not end there. It is equally important to support working families to ensure that they remain self-reliant.

Ontario will expand its programs to help low-income families find and keep jobs:

- The new Ontario Child Care Supplement for Working Families would boost the resources available to families with young children to help with child care costs. This year, the program would support 350,000 young children. The new program would combine the $40 million child care tax credit with an additional $100 million made available by the National Child Benefit initiative in 1998-99. Low- and middle-income working families and parents who pay child care expenses to take training would receive up to $1,020 per year for each child under age seven. Next year, the Government will invest more than $200 million in this program.

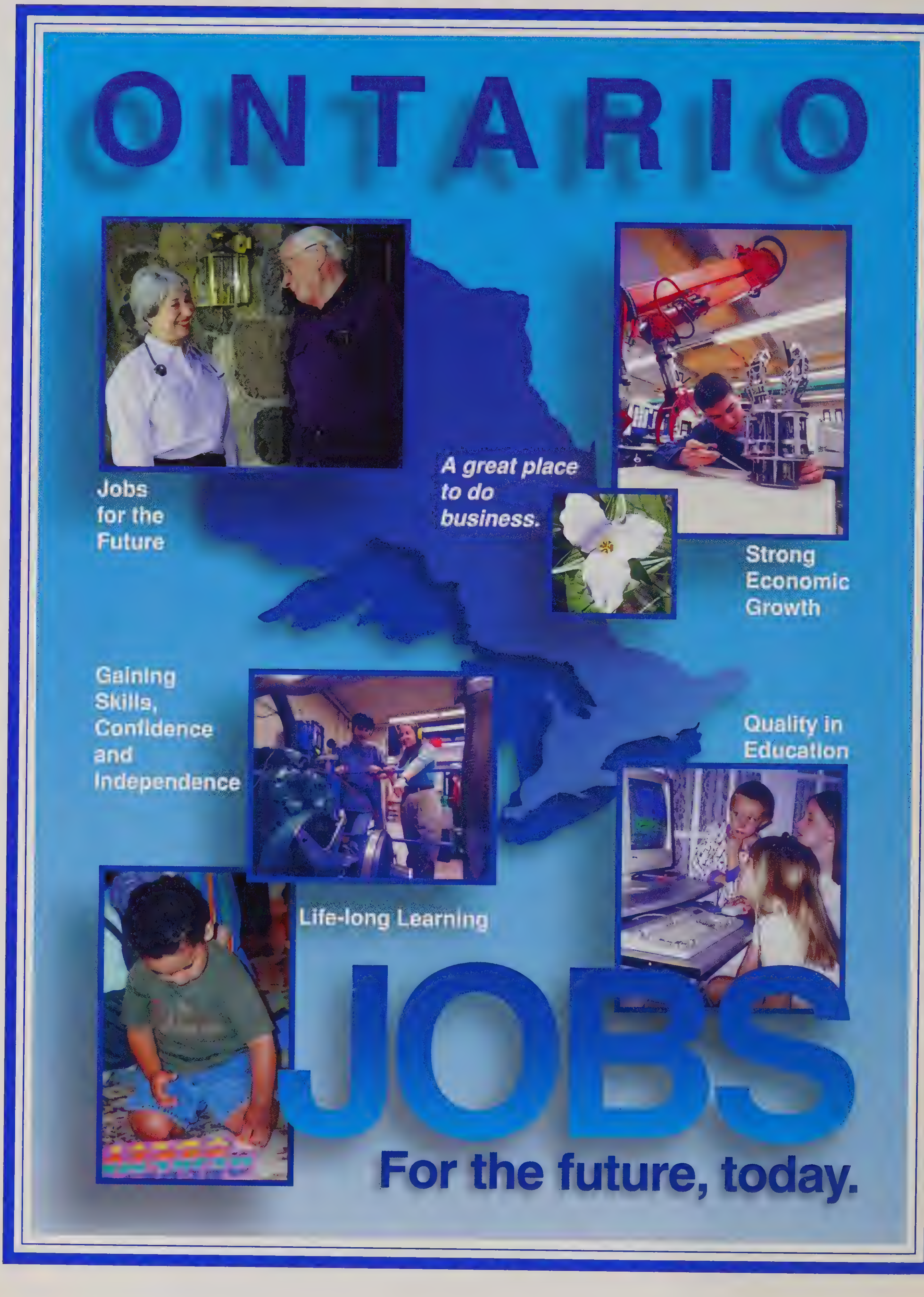
- For the third year in a row, low-income taxpayers will receive benefits from an enrichment to the Ontario Tax Reduction program. The Ontario Tax Reduction adjustments made by this Government will benefit an additional 360,000 taxpayers. Seventy thousand Ontarians will have their Ontario income tax eliminated, and a further 290,000 taxpayers will have their income tax reduced by more than 30 per cent.

The new Ontario Child Care Supplement for Working Families, along with tax cuts, the enrichment of the tax reduction program, and other measures supporting children, recognize the importance of providing families with the supports necessary to strengthen the commitment to work and self-sufficiency. These programs spend money where it counts — keeping people working and learning.

Conclusion

The success in addressing the welfare challenge confirms that the Government's policies are working. Ontario has opened up opportunities and restored hope to those on welfare while, at the same time, bringing responsible management to the welfare system.

The new initiatives announced in the 1998 Budget will help ensure that the renewed sense of self-confidence and pride that comes with moving off welfare and into paid employment is not lost.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